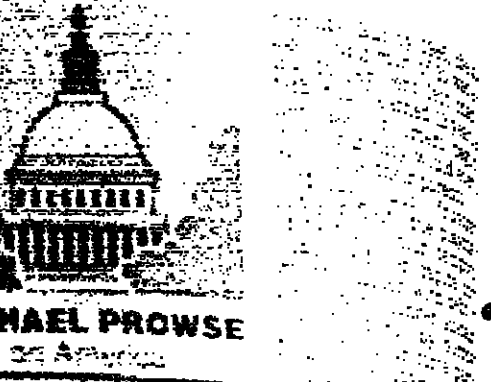


by-boomers
the blues



HAEL PROWSE

Austria	100.00	100.00	100.00	100.00
Belgium	100.00	100.00	100.00	100.00
Canada	100.00	100.00	100.00	100.00
Denmark	100.00	100.00	100.00	100.00
France	100.00	100.00	100.00	100.00
Germany	100.00	100.00	100.00	100.00
Greece	100.00	100.00	100.00	100.00
Italy	100.00	100.00	100.00	100.00
Japan	100.00	100.00	100.00	100.00
Netherlands	100.00	100.00	100.00	100.00
Portugal	100.00	100.00	100.00	100.00
Spain	100.00	100.00	100.00	100.00
Sweden	100.00	100.00	100.00	100.00
Switzerland	100.00	100.00	100.00	100.00
UK	100.00	100.00	100.00	100.00
USA	100.00	100.00	100.00	100.00

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FINANCIAL TIMES

Tuesday November 12 1991

A free-market mole
in the White House

Page 9

Φ D 8523A

BEHIND CLOSED DOORS

PART THREE

"How can we trust you if you don't even tell us what's going on?" The Bank of England was outraged when it discovered Agha



Hasan Abedi, BCCI's founder, had failed to inform it of huge treasury losses. 'The \$1.3bn Hole in The Heart' Page 2

World News

EC monitors to pull out of embattled Dubrovnik

European Community monitors are to pull out of Dubrovnik because the besieged and bombarded Yugoslav city has become too dangerous. The decision follows three days of heavy attacks during which the Serb-dominated federal army has pounded hotels and sunk several boats in the harbour. Page 2

69 die in SA mines

At least 69 miners were killed at South Africa's President Steyn mine south of Johannesburg in weekend fighting between black factions. A mine union accused a "third force" of sparking the three nights of violence. Earlier report. Page 8

Nuclear fusion plan

Nuclear fusion researchers urged world politicians to back plans for a \$600 experimental fusion reactor. The call followed the world's first successful controlled fusion experiment in the UK on Saturday. Page 24

French reform criticised

France's main conservative opposition parties criticised President Mitterrand's plans for constitutional reform. Many accused him of proposing them to get the governing Socialist party out of trouble. Page 24; Old for Mitterrand, Page 4; Après moi la réforme, Page 22

Boat people tranquillised

The Hong Kong government admitted tranquillising two Vietnamese boat people before they were forcibly repatriated at the weekend. Page 7

Egyptian leads UN poll

Egypt's deputy prime minister Boutros Boutros Ghali gained most votes in an informal Security Council poll to find a new UN secretary-general. Page 7

Braced for new storm

The Philippines island of Luzon was put on renewed typhoon alert. President Corason Aquino promised a purge on illegal logging after officials said deforestation was mainly to blame for floods which killed up to 7,000 Filipinos last week. Page 6

Army helps harvest

Romania ordered 35,000 troops into the fields to help rescue millions of tonnes of unharvested crops which could help avert winter food shortages. Page 6

EC tobacco warnings

European Community health ministers agreed that cigars and tobacco should carry stiff new health warnings similar to those on cigarettes - but they put off debating controversial proposals to ban tobacco advertising. Page 3

Neo-Nazis jailed

Five neo-Nazis were jailed in the former east German town of Zittau for attacking a convalescent home for Soviet children contaminated by the 1985 Chernobyl nuclear disaster. Page 7

Stamped out

Beijing's authorities have shut down the city's thriving free market for postage stamps. An official notice warns that speculation in stamps is a criminal offence. Page 2

Business Summary

Royal seeks to raise fresh capital from European link

Royal Insurance of the UK is in negotiations to raise several hundred million pounds in capital as part of a deal to form a pan-European alliance with Aachener und Münchener Beteiligungs (AMB), Germany's third biggest insurer, and with Fondiaria of Italy. Aachener and Fondiaria are likely to inject new capital into Royal, but they may not do this by a simple purchase of new ordinary shares. Page 25

GERMANY to reduce its

hard coal production by more than 20 per cent by the end of the decade, cut subsidised supplies to power stations and steelworks and slash the workforce by 30,000, leaving fewer than 100,000 people employed in the industry. Page 24

BRITISH Steel shares plunged

British Steel shares plunged nearly 20 per cent after the privatised steelmaker announced a collapse in first-half pre-tax profits and gave a warning to investors about the level of its final dividend. Page 23; Warning on Bethlehem venture, Page 9; Lex, Page 24

SLOVNAFT, Slovak oil refinery

company, is to sign an accord with the Russian Federation. Under the pact, a new company will be owned 50 per cent by Russian Majors Neftgaz, 25 per cent by C.10th of Japan and 20 per cent by the Slovak side. Page 6

FIRST City: The Belberg family

once among north America's foremost corporate raiders, are about to lose control of their debt-burdened flagship company, First City Financial, after shareholders approved a restructuring plan. Page 25

TRADE: James Baker, US

secretary of state, urged Japanese government ministers to curb their country's rising trade surplus and to ease a ban on rice imports. Page 7

GATT: President George

Bush's decision to scale down US targets in the dispute over farm subsidies with the EC won a positive but cautious reaction in the General Agreement on Tariffs and Trade. Page 6

UK MOTOR industry: A

delegation from the UK industry met the trade and industry secretary to express concern over possible moves by France and Italy to curb distribution of UK-built Japanese cars. Page 6

DIGITAL Equipment, world's

second largest computer manufacturer, aims to strengthen its role in the \$170n market for computers used by small and medium-sized businesses in Europe by forming a new group of marketing, sales and service companies. Page 28

HONGKONG Bank and its

subsidiary Hang Seng Bank are tightening their mortgage lending policy as concern mounts about Hong Kong's overheated residential property market. Page 7

CASIO Computer, Japanese

electronics company, reported a 32.6 per cent increase in pre-tax profits to ¥11.29bn (\$87m) for six months to end-September, largely because demand was strong for its mainline calculator and watch products. Page 28

UK ready to offer EC concessions to avoid isolation

By Philip Stephens, Political Editor, in London

MR JOHN MAJOR, the British

prime minister, pledged his determination last night to work for a deal on European integration as it emerged that the UK is ready to offer fresh concessions to avoid isolation at next month's Maastricht summit.

In a speech which directly confronted his critics on the right of the Conservative party, Mr Major described the summit as an important stage "on the road to ever-closer union among the peoples of Europe".

His comments, made at the annual Lord Mayor's Banquet in London, coincided with evidence that the UK government is now ready to accept a number of institutional changes which would strengthen the authority of the European Community.

Ministers said these included a direct say for the EC in environmental, health, education and, possibly, transport policies; the extension of majority voting to areas other than defence, foreign policy and the social charter; and strengthening of the European Parliament's power of veto on issues subject to majority voting.

Dismissing the arguments of senior Conservatives who have urged him to veto plans for a single currency, Mr Major said that, with "give and take on all sides", the basis of agreements on economic and political union could be found.

Special teams pass on the

European treaty baton, Page 3
Italy urged to take tough line on economy, Page 3
Brussels goes ahead with Balkan loans, Page 3

In a thinly-veiled reference

to recent statements by Mr Norman Tebbit, the former Conservative chairman, Mr Major said that while it would be wrong to accept now the principle of a single currency it would be equally mistaken "to decide now that in no circumstances will we ever do so".

That stance threatens a public clash with Mrs Margaret Thatcher during next week's House of Commons debate on the summit. But Mr Major's political judgment is that the electoral advantages of a deal at Maastricht outweighed the risk of a rebellion by his predecessor.

His speech came as officials said Mr Major approved of the basic structure of the latest Dutch draft treaty on political union. The structure met his fundamental objective that closer co-ordination of foreign and defence and of interior and justice policies should remain outside the existing institutions of the EC.

Mr Major underlined that there were still "huge problems" on the shape of the political union treaty. He rejected

"the general clamour for wide-

-ranging extensions of Community competence" and insisted that Britain "would not give up our right as a nation to take vital foreign policy decisions".

He emphasised instead the need to give the European Parliament authority over the Commission. He is equally determined to resist any intrusion by the Community into the UK government's control of immigration policy.

There was also acknowledgement by ministers last night that the concessions Britain is ready to offer fall far short of the ambitions of many of its partners.

The tone of Mr Major's speech, however, confirmed a growing view that three developments over the past week - the conclusions of the Nato summit, Mr Major's meeting with Chancellor Helmut Kohl on Sunday and the structure of the Dutch draft treaty - have significantly enhanced the prospects of a deal.

Officials believe that the agreement within Nato that it should retain its primacy in Europe's defence policy has paved the way for a compromise on the shape of a new European "defence" identity. There is similar optimism that the ambitions of other European governments for a common foreign policy can be framed in treaty language which would not compromise Britain's freedom of action.

Few changes in new draft

By David Buchanan in Brussels

THE Dutch presidency's latest draft text on political union appears to offer no comfort for Britain on foreign and defence issues and to raise fresh doubts on immigration policy.

The words "federal goal" remain in the draft treaty, as does the extension of majority voting to most areas of social policy. Foreign ministers of the 12 European Community member states will today start wrangling over the latest proposals. The draft is a working document for foreign ministers meeting at Noordwijk on the Dutch coast.

One of the few new elements sets out a common policy on

visas for non-EC visitors,

which, it says, should be a Community responsibility and be decided by majority verdict among the EC members.

Setting a common policy on visas for non-EC visitors to the EC would be a Community responsibility, and could be decided by majority verdict among the 12 EC states, according to the Dutch text.

Setting one of the few new elements to the latest Dutch text after an earlier draft was rejected.

Britain's EC partners have long regarded a common visa policy as flowing directly from the 1987 Single European Act's

commitment to the free movement

of people within "an area without internal frontiers". Britain has never conceded that such free movement should be extended to non-EC citizens. It plans to keep its own checks on travellers entering UK ports and airports, thereby making possible a separate UK policy on visas.

The British will be further irritated by a clause relating to immigration, asylum and anti-drug and anti-fraud co-operation. Although these, like foreign and security policy, remain basically areas of inter-governmental co-operation, they are not part of the

Continued on Page 24

Olivetti's problems force return of De Benedetti

By Haig Simonian in Milan

MR CARLO De Benedetti, the Italian boss of Olivetti, has returned to full-time management of Olivetti, the computers and office equipment group, in response to the growing difficulties facing the company.

Olivetti said the decision reflected the further worsening of the worldwide crisis in the information technology industry. Mr De Benedetti's return to active management was being taken "with the same sense of purpose with which in 1978 he led the group around of the company, returning it to profitability".

The move will be seen as a setback for Mr Vittorio Cassoni, who moved back from Olivetti to Olivetti as managing director in 1988. Although retaining his title, Mr Cassoni will become responsible for Olivetti's international affairs. He was previously in charge of Olivetti's US operations.

"The company, which has seen the departure of a number of top executives in the past 18 months as a result of internal

struggles over strategy, said Mr Cassoni "fully shares the reasons" behind Mr De Benedetti's decision. According to one executive, the fact that Mr Cassoni had not resigned reflected his agreement.

Like many other computer groups, Olivetti has dived into loss this year as a result of falling orders caused by economic recession in many markets and severe price wars as leading manufacturers struggle to retain market share. The group announced a loss of L73.7bn (\$80m) in the first half of the year, against net profits of L60.9bn in the same period last year.

Olivetti has not given any indication of earnings for the full year, partly because November and December are traditionally important months for the industry in terms of new orders. However, "the trend has continued and been confirmed" since the interim stage, said the executive.

Mr De Benedetti had already been devoting increasing

amounts of time to Olivetti, which is 43 per cent owned by CIR, the quoted holding company he controls, even before yesterday's move.

CIR moved swiftly last night to scotch nagging rumours that Mr De Benedetti would be happy to sell Olivetti to a politically-acceptable buyer could be found.

According to one executive, the fact that Mr De Benedetti had not accepted offers in the past, and had instead increased both his financial and physical commitment to the group, demonstrated his continuing concern about its future.

Olivetti has been seen as one of the most vulnerable remaining computer groups in Europe because it is neither state-owned nor controlled by a big private-sector partner, like Groupe Bull of France and Siemens Nixdorf of Germany.

The executive argued that the fact its major shareholder is "an entrepreneur with his own money at stake", is an asset rather than a liability.



Jubilant Chechen rebels firing their weapons in the air yesterday after the Russian parliament asked President Boris Yeltsin to lift the state of emergency imposed on the autonomous republic of Chechen Ingushetia

Yeltsin defeated in vote over Chechen republic

By John Lloyd in Moscow

THE RUSSIAN parliament

yesterday delivered a sharp rebuke to Mr Boris Yeltsin, the Russian president, by voting overwhelmingly to cancel the state of emergency he declared on Friday in the rebel autonomous republic of Chechen Ingushetia in the northern Caucasus.

The news was greeted in the republican capital of Grozny with shooting into the air and a display of Chechen and Islamic flags. Men of all ages have flocked to join the call to arms made by the retired Soviet air force general Dzhokhar Dudayev, confirmed as the republic's president last Saturday after an election which Moscow has declared invalid.

The parliamentary vote, which follows the withdrawal on Sunday of 630 Interior Ministry troops sent to Grozny by Mr Yeltsin, shows that the Russian leader's professed aim of brooking no break-up of the Communist and conservative Chechen Ingushetia has failed at its first test.

It sends a message to other republics in Russia that their own pro-independence leanings may now be pursued with impunity. "Tatarsstan like Chechen Ingushetia a predominantly Moslem republic, has already declared independence, while the Caucasian republic

G7 stays its hand over

Soviet debt safety net, Page 4
IMF's man in Moscow looks to individual initiative, Page 5
Soviet and Finnish groups in peninsula accord, Page 5

of Dagestan - again Moslem -

has expressed support for the Chechen struggle. Mr Yeltsin, who two weeks ago told the parliament that he was taking extraordinary powers to control the deteriorating economic and social situation, was last night consulting advisers on his next move.

Mr Alexander Rutskoi, the Russian vice-president, and Mr Sergei Shakhrai, the state adviser to Mr Yeltsin, both defended their strong advocacy of a state of emergency during yesterday's stormy debate.

Significantly, support for their stance came from the old Communist and conservative groupings who had previously been Mr Yeltsin's foes. The opposition to his decree came from the democrats who are his parliamentary power base.

The opposition to Russian rule within Chechen Ingushetia relies heavily on Moslem and anti-Russian imperialist rhetoric. General Dudayev took his oath as president on the

Koran, while four of his

supporters hijacked an aircraft at the nearby city of Mineralnye Vody and flew to Turkey to publicise their cause.

The Russian parliament's resolution said that Mr Yeltsin's decree was legitimate, but that it could not be endorsed because the "crisis in the Chechen Ingushetia republic must be solved by political means and not by the use of extraordinary measures".

It called for a parliamentary investigation of the people who took decisions which were "politically, technically and militarily unprepared". Mr Rutskoi, a former air force colonel, said on Russian TV on Saturday that he drew up the decree with Mr Shakhrai, and defended it as "long overdue".

Mr Vladimir Lukin, chairman of the Russian parliament's committee on international relations, said: "This is one of the sharpest crises, for which Russian executive power was completely unprepared."

General Dimitri Volkogonov, a Russian presidential adviser on military matters, said the fault lay with the "politicians who drafted the document". He said: "I think it will not throw a shadow on Boris Yeltsin but just emphasise that he is too credulous."

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Old fox Mitterrand plans to

give opposition the slip

Since he appointed Mrs Edith Cresson prime minister, President Mitterrand's popularity has declined. But his plans to reform the French constitution may just have changed things. Page 4

MARKETS

STERLING	New York: \$1.785 (1.7465)
London:	\$1.795 (1.7875)
DM2.905 (2.9025)	FF6.9225 (6.925)
SP2.585 (same)	Y230.0 (230.25)
£ index 91.2 (same)	
GOLD	New York Comex Dec: \$350.2 (\$355.2)
London:	\$353.95 (same)
N SEA OIL (Argus)	Brent 15-day Dec: \$21.525 (-0.35)
Chief price changes yesterday: Page 25	

DOLLAR	New York: DM1.595 (1.6465)
London:	DM1.604 (1.6295)
FF1.447 (1.4335)	Y130.085 (130.38)
London:	DM1.6415 (1.642)
FF6.9075 (6.914)	SP1.448 (1.4305)
Y130.0 (130.3)	\$ index 63.6 (63.5)
Tokyo close:	130.05

STOCK INDICES	FT-SE 100: 2,554.9 (-4.1)
FT-SE Eurotrack 100:	1,100.31 (-2.4)
FT-A All-Share:	1,224.87 (-0.1%)
FT-A World Index:	148.14 (-0.1)
New York close	DJ Ind. Av. 3,042.26 (-3.36)
S&P Comp	393.12 (+0.23)
Tokyo: Nikkei	24,232.59 (-253.5)
LONDON MONEY	3-month interbank: 10.5% (10.4%)
Life long gilt future:	95% (95%)

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BCCI: BEHIND CLOSED DOORS

The telex chatters into life in BCCI's Cayman Islands offices.

Inside the white, colonial-style building in Georgetown, the Pakistani managers watch as the machine taps out a string of "recommendations" from the bank's dealing room in the City of London.

"Conditions look favourable for going long on the dollar", the telex might say. In other words: tell us to buy dollars because they're going up. Faithfully, the Cayman Islands staff re-keys the recommendation into the telex back to Leadenhall Street. "Go long on the dollar".

Another day's trading is under way. This little ritual served a useful purpose in BCCI's strategy of deceit: to create the fiction that the treasury's vast ebb and flow of funds was really being managed from the Caymans offshore tax-haven.

When Agha Hasan Abedi, BCCI's founder and moving spirit, incorporated the Caymans into his global operation, he chose well. The bankers and privateers who first settled there in 1970 would have recognised a kindred spirit.

The Caymans are a banker's dream. There are more companies registered on the island than there are people, with one bank for every 31 man, woman and child. Discretion is guaranteed.

The Caymans suited BCCI for two reasons. As a banking haven it attracted large amounts of private deposits from clients who preferred to keep their money away from the prying eyes of their governments.

This also enabled BCCI to engage in one of its favourite manipulations: mingling other people's money with its own.

The second advantage of the Caymans was its low tax rates. Abedi was keen to book as much of the bank's business as possible in the Caymans rather than under the hostile tax regimes of many of the Third World countries in which BCCI operated. BCCI's auditors advised it to set some money aside in case it got a tax demand for the treasury's profits.

Unfortunately, the treasury's profits were a fiction – though few inside the bank realised it at the time. The treasury made enormous losses. This required fraudulent manipulation on a colossal scale to prevent them coming to light and bringing the bank down.

The story of those losses, how they were concealed and how they came to light, is a crucial chapter in the bank's history. It led, slowly but inevitably, to the crisis that engulfed BCCI in 1990 and 1991.

A bank's treasury plays a key role in managing its financial affairs by trading large amounts of money and currencies. Some of this dealing is done on behalf of clients. But bank treasuries also speculate on whether currencies will rise or fall, using their own money. BCCI was no exception. According to Price Waterhouse, the bank combined these two activities by trading huge amounts of clients' money – but in its own name, and without their knowledge.

Punting on currencies can be a major source of profit but it can also prove disastrous. It turned out to be the case with BCCI. The bank set up a central treasury in 1982 to bring together and putting to work the pools of cash that lay around its 69-country network, now holding \$10bn of assets. It had to keep a large stock of liquid money because of its homeless status.

Much of this money was held by ICIC, its shadowy affiliate, based in the Caymans. ICIC acted as an international private bank for BCCI's super-rich customers, including the ruling family of Abu Dhabi.

The exact relationship between BCCI and ICIC is still unclear. Although BCCI seemed to control it, ICIC's ultimate owner is a Cayman company whose memorandum of association states: "in classic Abedi style – that on dissolution its assets must be distributed to charity. The likelihood is that ICIC in fact owned BCCI. It appears to have played a central role in the secretive arrangements by which BCCI used nominees or frontmen to finance acquisitions of its own shares.

Ghaith Pharaon: Money in a hurry

Day or night, Ghaith Pharaon was always in a hurry for money.

Sometimes the Saudi entrepreneur would ring up after business hours demanding a loan for an urgent deal the next morning. It always arrived – part of the BCCI service.

All it needed was a nod from Swaleh Naqvi, BCCI's chief executive, with whom Pharaon preferred to deal directly. The account officer would then disburse the money into whichever bank the globe-trotting Pharaon wanted. Pharaon was one of the bank's largest customers, for a time a shareholder and one of the small band of well-connected Saudi Arabian power-brokers whose affairs became intertwined with those of BCCI during the 1970s.

Former BCCI officers say Pharaon first met Abedi in 1975, although Pharaon has said the relationship started in 1977-78.

According to a list seen by the FT, Pharaon's worldwide holdings in 1986 encompassed 156 separate companies, ranging from film production companies, cement and aggregates, oil, hotels, shipping and property, to commodities, agriculture, banking, finance and insurance. He has recently taken an interest in cable TV in the US and took a \$9m stake in Eurotunnel, which he offered as security for part of his BCCI debt.



'The \$1bn hole in the heart'

PART THREE

BCCI's treasury was at the centre of a web

of fraud and deceit. It made huge losses and

covered them up with bogus deals – under the nose of its auditors

and of the Bank of England. And, for years, it got away with it

There was, in fact, not much to show for BCCI's presence in the Caymans, partly because it was only a booking centre: two office buildings, a few dozen staff and a warehouse near the airport, bearing the number 007.

The Pakistani managers and their families lived in modest but comfortable townhouses, but kept very much to themselves. They were prompt and polite in their dealings with regulators and other banks on the islands. Every January, they would host a lavish buffet, washed down with fine wines, for local political, business and banking leaders. "The tables really groaned," recalls one prominent banker.

The London treasury was a more substantial operation. It was run by Syed Raziuddin Ali Akbar, an Indian-born banker in his early 40s who had joined BCCI in Oman in 1975 and moved to London a year later. His glowering look, neatly cropped beard and curt conversation made him a remote, intense figure.

Akbar was told by BCCI's board to limit his speculative activity to a maximum loss exposure of \$100m. But this limit soon became mean-

ingless. According to Price Waterhouse, Akbar's team were spectacularly unsuccessful traders: they lost large sums from the outset. It was a time of sudden and large swings in interest rates which made trading difficult. Within a year the traders were forced to resort to manipulation to cover up mounting losses.

They used two techniques. One was to sell enormous quantities of options contracts. These gave the buyer the "option" to purchase currency or securities at a set price at a later date.

Akbar would book the proceeds of these sales as profit, even though he retained a liability to the buyer at a future date. As these liabilities materialised, he was forced to sell even more contracts to keep cash flowing in. The losses snowballed and Akbar hid himself in the path of an avalanche.

As a trader of interest rate options, in 1985 BCCI was in a league of its own with outstanding positions of \$11bn. By comparison, one of the highest local operators in this market at the time, a leading London merchant bank, had positions of only \$2bn.

The second cover-up technique was to split the treasury into two sets of accounts. One consisted of normal treasury operations. The other, the so-called "Number Two" accounts, were run by dealers at a different set of desks, ostensibly trading on behalf of BCCI's private clients. In reality, they were plundering clients' accounts and using the money to trade on BCCI's behalf. As one part of the edifice collapsed, they rushed other parts of it across to shore it up, thus weakening the entire structure.

When they lost that money too, they tried to make good the clients' accounts by manufacturing artificial loans to them, or by taking in other deposits without recording them on the books.

One victim of these manipulations was the Faisal Islamic Bank of Egypt, which placed large sums of money with BCCI in the belief that they were being handled on an Islamic basis (that is, earning an investment return rather than interest). But Faisal's money went into the treasury's black hole like everyone else's. Price Waterhouse puts the Cairo bank's

seidom met. The board often approved the largest loans afterwards. If anyone queried them, they were told: "It was urgent".

The management of the Pharaon accounts also shows how the fraudulent arrangements were kept separately by Naqvi.

Basic details of the loans went into the Pharaon file, held by the account officer. But sensitive documents went into a separate, "balance confirmation" file, kept by Naqvi himself. This would include documentation covering Pharaon's role as a nominee as alleged by the Federal Reserve.

Naqvi's separate files on its key clients were to play a central role in the fraud because they contained, according to FW, documents like "hold harmless" letters and promises of indemnification which exposed the true nature of BCCI's dealings.

In September, the US district court in New York froze Pharaon's US assets after the Fed announced that it was finding him \$37m for illegal dealings with BCCI. The Fed is now seeking to ban him from the US banking industry.

Meanwhile his white-painted column-fronted mansion on a large Savannah plantation deep in the US cotton belt, once the home of Henry Ford, awaits his return.

exposure at nearly \$400m.

According to Price Waterhouse, Akbar managed to conceal his losses from the auditors and even from Abedi and Swaleh Naqvi, BCCI's chief executive, for three years. By his own admission, the treasury had accumulated a loss of \$633m by 1985. But Price Waterhouse estimate that his treasury was obliged to divert as much as \$1.3bn in order to plug this enormous hole and pay the interest accruing on the loss.

Akbar has a house in Golders Green, north London, and claims to be a simple and devout Moslem. He recently said in an interview with the FT that he was merely a junior at BCCI, not a top executive. BCCI's treasury division had no control over client accounts, he claims, and so could not move cash or operate the secret pool as Price Waterhouse alleges.

All his decisions, he says, were monitored by other divisions and committees within the bank: he was following orders. There is nothing he could have done that was not known and sanctioned – indeed, that was not directed – by senior executives and ultimately by Abedi and Naqvi themselves.

"I was simply a co-ordinator among several divisions. I never originated any deals," he says. "It's all a cover up. I was silent, so everyone wanted to blame it on me."

The treasury's trading bludge did not go completely unnoticed at the time, however. The financial markets have sensitive antennae, and the huge volume of trading generated from BCCI's dealing room and its obvious exposure sent out signals which other banks quickly picked up. Rather than pass their concerns on to the authorities, many of them took advantage to make profits at BCCI's expense.

Word reached the Institut Monétaire Luxembourg, the regulator of banks in Luxembourg where BCCI was based. In 1985, the Institut asked BCCI to conduct a review of its treasury. The investigation got under way in late January 1986.

Price Waterhouse, the auditors of the Cayman operation, Price Waterhouse's investigators uncovered the treasury's first cover-up technique: the use of options contracts to roll losses over from one year to the next. They did not find \$200m of BCCI's profits for 1984 and 1985. But Price Waterhouse put the error down to management incompetence.

Price Waterhouse had failed to spot the accounting error the previous year, when it was present but on a smaller scale. Leaving aside the question of whether the error could realistically have been spotted sooner, there is a more serious issue at stake.

With hindsight, this appears to have been a moment at which BCCI's wrongdoing might have been brought to light. Price Waterhouse audited both the treasury and some Cayman-based accounts which were being robbed to fund the losses; it was therefore theoretically in a position to detect both sides of the manipulation. Was this a missed opportunity to unmask BCCI's activities half a decade before they came to light?

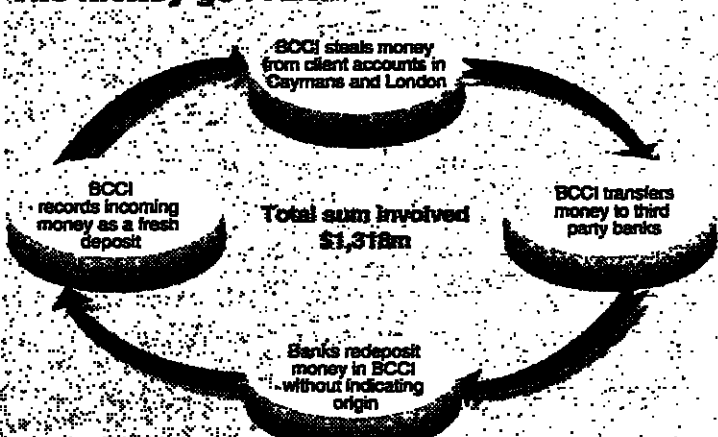
Price Waterhouse has said there was no evidence at the time to suggest that the treasury losses had a more sinister cause. Other banks, it says, have suffered from dealers running up loss-making positions outside authorised limits; there was no evidence that this was anything more than a bad case of the same.

Even now, the full truth of the treasury fraud is unclear, with an investigation by another firm of accountants still unfinished. Most of the available evidence is based on Akbar's own account.

Although the true scale of the treasury disaster remained hidden, it was still a spectacular piece of bad banking which caused uproar within BCCI. Akbar left abruptly, and a clean-up got under way, with Price Waterhouse advising.

In the confusion, Abedi failed to tell the Bank of England what had happened – a sin not lightly forgiven. The Bank, however, got to hear about it from the Institut Monétaire Luxembourg, and Brian Quinn, director in charge of banking supervision, summoned Abedi. "How can we trust you if you don't even tell us what's going on?" the supervisors asked him.

The money-go-round



The group's cover-up was not its only crime. BCCI used to cover up its massive treasury losses. Changes included bookkeeping entries to clients and using the cash.

Annis, who has since died, reputedly used to remove his glasses before signing documents so that he could not read their contents.

Abedi told banking regulators that the money was contributed by the staff fund. They chose to accept this as further evidence that BCCI was indeed, as Abedi claimed, a bank run on Third World principles of mutual self-help.

This was typical of BCCI's poor relations with the authorities. Yet what followed was also typical of Abedi's ability to escape from tricky situations. He came clean, apologised profusely and made lavish promises of better practices.

This was another fork in the road at which the BCCI story might have taken a different route. Faced with this clear evidence of (at best) incompetence and dissimulation, the Bank of England might have tried to impose stronger management on BCCI. Instead, Abedi

kept accepting deposits from customers without recording them on the books. Price Waterhouse says the total sums involved amounted to \$1.3bn.

Though BCCI survived the treasury disaster, steps towards tighter control followed. They led, through a painfully slow process, to the revelations that brought the bank down in 1991.

According to Price Waterhouse,

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person to head the treasury after the disastrous losses. The advertisement promised the successful candidate 'unlimited potential'.

suggested that he move the treasury to Abu Dhabi, because that was where his main shareholders lived; the Bank agreed. (Luxembourg, BCCI's official European home, did not want it either).

With the treasury fiasco left Abedi with a large hole in his balance sheet, the precise size of which he learnt from a memo which Akbar left behind, detailing the scale of his manipulations. Abedi tried to put a brave face on it. "Some people will think it's a great deal of money, but we'll get over it," he told a colleague.

How, though? Abedi turned to his friends in the Gulf for help, but they were so shaken by the losses that they refused to put up fresh cash. In desperation, Abedi extracted \$150m from the bank's own staff fund as a "gift" through staff were not immediately told. One fund's trustees Akhtar

Akhtar later managed to blackmail BCCI for \$32m to keep quiet about the treasury fiasco. In 1988 he was convicted of drug money laundering, and was recently re-arrested on fresh BCCI-related charges. He denies every aspect of Price Waterhouse's allegations – including receipt of the \$32m.

Whether Akbar was really controlling the treasury, or merely acting as a lieutenant for his superior, his team made a lasting mark on BCCI. When it left London, the treasury left behind a \$1.3bn hole which Abedi had either to expose – with the certain risk that it would destroy his bank – or cover up.

Since his life's work was at stake he did not have much choice.

■ Tomorrow: 'Bank of Crooks and Cocaine International'



Written by David Lascelles, with contributions from: Richard Donkin, Alan Friedman, Christine Lamb, Richard Waters, Richard Tuckman, Bernard Simon, Chris Tighe, Jimmy Burns, James Burton and Stephen Fisher.

EUROPEAN NEWS

Rome plans gradual reduction of inflation and budget deficit

EC urges Italy to take tough line on economy

By Andrew Hill in Brussels

COMMUNITY finance ministers yesterday urged the Italian government to take tough measures to bring its economy into line with the rest of the EC.

Italy is the first of the 12 member states to submit an economic convergence plan to its EC partners, part of moves towards economic and monetary union (Emu).

The Italian plan proposes a gradual reduction of inflation from just over 8 per cent now to 3.5 per cent in 1994. It also envisages reducing the budget deficit from about 10 per cent of gross domestic product to 5.5 per cent in the same period.

Finance ministers welcomed the report but said they thought some of the macroeconomic assumptions behind Italy's programme for economic convergence "may prove to be rather optimistic", and other measures needed to be laid out in more detail.

The criticism of the convergence programme will give Mr Guido Carli, the Italian finance minister, a powerful weapon in his attempt to curb the spending excesses of other ministries and the Italian parliament. Mr Carli said he expected his ministry to win more power over budget expenditure, which is often amended and increased by parliament.

EC ministers said Rome should "stand ready to take additional pre-specified measures should macroeconomic developments prove less favourable than expected". They said the Italian plan pre-



Guido Carli: given a powerful weapon

supposed "a strong expansion of private investment and of exports".

The programme also commits Italy to take the "necessary corrective measures" to avoid missing deficit targets, which the ministers welcomed.

Mr Carli said it would be difficult to meet the deficit targets set by the Dutch presidency of the EC for countries which want to be among the first to enjoy full currency union in 1997.

But he added: "Five years is a long period. Great changes can take place. I don't see any reason why we should not be able [in that period] to adjust the inflation rate if a proper incomes policy is adopted."

Brussels goes ahead with Balkan loans

By David Buchan in Brussels

EC FINANCE ministers decided yesterday to lend Romania and Bulgaria about \$800m (£520m) in balance of payments assistance, without waiting for a matching loan from other members of the Group of 24 aid consortium.

The EC had hoped its G24 partners would provide half the planned loans of \$1bn and \$600m to Romania and Bulgaria respectively.

But the US and Japan do not accept that the burden of help for eastern Europe should be split evenly with the EC. As a result, non-EC members of the G24 have so far only matched the EC's \$500m loan to Romania with \$275m, and the Community's \$400m loan to Bulgaria with \$180m.

However, EC finance minis-

ters said they would continue to press the G24 for a matching contribution.

Foreign ministers of the G24 donors and recipients were separately in Brussels yesterday to review the aid programme for east Europe.

Mr Stoyan Ganev, Bulgaria's foreign minister, told G24 donor countries his country was facing severe energy shortages. He appealed for more money to improve safety at the Kozloduy nuclear power station, which is now partially shut down but once supplied 40 per cent of Bulgaria's electricity.

Mr Adrian Nastase, Romania's foreign minister, said his country needed \$3bn for food and energy over the next six months.

Tighter rules on tobacco labelling

EC HEALTH ministers yesterday toughened restrictions on the marketing and labelling of tobacco, but postponed until next year discussion of the controversial proposal to ban all tobacco advertising, writes Andrew Hill.

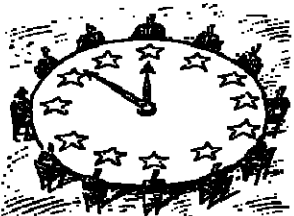
Ministers agreed that oral moist tobacco - sold in small sachets and sucked rather than chewed - should be banned in the EC from July. The product is already banned in Belgium and Italy.

They also agreed that tough new requirements on health warnings, which will apply to cigarette packaging from the start of next year, are to be extended to all other types of tobacco from 1994.

Special teams pass on the European treaty baton

Negotiators have refined options for ministers as talks enter a decisive phase, writes David Buchan

COUNTDOWN TO MAASTRICHT



THE battle for European Community political and monetary union enters its decisive phase this week as ministers at last start doing what their special negotiators have been doing all year: wrangling line by line, article by article, over the proposed treaty.

The fact they have a palimpsest to pore over is largely due to the 24 special negotiators who have spent most of the year in the treaty trenches.

The combatants vary. Seven states field their regular EC ambassadors, while the other five send in outsiders to thrash out European political union (Epu). All 12 states dispatch senior Treasury officials from their national capitals to handle economic and monetary union (Emu).

Both sets of negotiators have had to grind endlessly through a marathon, in which even the rare flashes of humour were a serious business.

Mr Jürgen Trittgen, German ambassador and Epu negotiator, earlier this year proposed a system whereby 11 countries could outvote the 12th on social policy, softly portraying the move as a concession that would allow Britain to block a social measure by picking up only a single ally. Since, however, Britain almost always stands alone on social policy, Sir John Kerr, UK ambassador,

quipped that seeking British support for such a scheme was like "asking a turkey to vote for an early Christmas". As the laughter died away, so did the German idea.

But aside from acting as a chopping block for the odd outlandish idea, the main function of the special negotiators' meetings, which now occur every week, has been to refine options for ministers.

"Our job has been to show ministers that if they want to do something, this is the way they would go about writing it into the treaty," says one participant. "But it is up to ministers to decide." The problem, says others, is ministers have given precious little guidance.

Even after "Black Monday" on September 30, when 10 countries combined to blast the Dutch presidency's Epu plan out of the water, the Dutch are still coming in for

criticism for their handling of the negotiations.

Ironically, Mr Pieter Nieman, the Dutch ambassador who chairs the Epu negotiation, had warned his government of the consequences of trying to rip-up the earlier Luxembourg presidency's draft. In the opinion of one of his co-negotiators, Mr Nieman risked being sacked had his advice not proved to be correct.

The Dutch have since stressed their role as a neutral arbiter, but this has not satisfied some participants in both Epu and Emu negotiations.

France, for instance, feels that Dutch chairmen are slanting texts and serving them up time and again, without change, compromise or alternatives.

The French prefer to leave all options open for a grand trade-off by politicians.

Oddly lacking in the tense wrangles has been the sense of history that Europeans are attempting something akin to what the Philadelphia Constitutional Convention produced for the US in 1787. "Only in foreign and defence policy, where the Community is treading new territory and minds are fresher, are the arguments genuinely interesting," carps one jaded participant. In standard areas of EC activity, he notes, "people are too busy taking old revenge for what's happened in the past".

KEY MEETINGS BETWEEN NOW AND THE SUMMIT

- Today: Finance ministers in Brussels.
- Today until Thursday: Foreign ministers in Noordwijk, Netherlands.
- November 14 and November 15: Franco-German summit in Bonn.
- November 18: Foreign/defence ministers in Bonn (WEU).
- November 25: Finance ministers in Brussels.
- December 1-3: Finance ministers in Schevingen/Brussels.
- December 2-3: Interior ministers in the Hague.
- December 3: Social affairs ministers in Brussels.
- December 9-10: Maastricht summit.

Such revenge is, however, taken more with the stiletto than the bludgeon; the special negotiators are all part of a Euro-freemasonry. This is clearest in the Emu negotiation, where all the participants know each other from the EC's monetary committee.

But even in Epu the five so-called outsiders are not really such.

For instance, Mr Pierre de Boissieu, the Quai D'Orsay's economics director and France's negotiator, spent sev-

eral years in the European Commission.

Another commuter from Paris is Mr Gunnar Riberholdt, who combines being Denmark's ambassador to the OECD with representing his country on Epu; but he is no stranger to Brussels where he was Copenhagen's envoy for seven years.

Similarly, Sir John Kerr knows all these officials - to a degree that might arouse suspicion among Conservative MPs at home - from his dealing

with EC affairs in London and as private secretary to the former British foreign secretary, Sir Geoffrey Howe.

The main Emu protagonists are Mr Horst Köhler, Bonn's state secretary for finance; Mr Jean-Claude Trichet, France's Treasury director; and Mr Nigel Wicks, who is second permanent secretary at the UK Treasury.

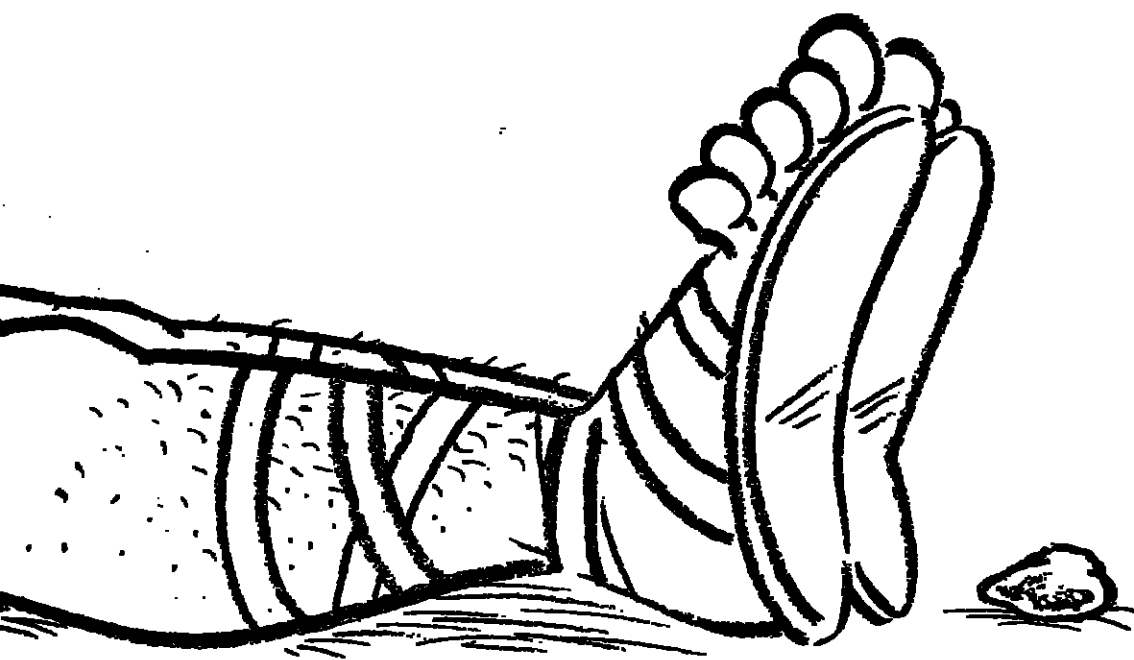
The degree to which Mr Wicks and Sir John co-ordinate with London have impressed their partners.

One of the latter says, almost despairingly, that the UK pair "seem to have someone in London assigned to study the drawbacks of each and every article of the treaty".

As chief may-sayer in Epu, Sir John is the political - though not the personal - target of his more outspoken counterparts. One of these, Mr Philippe de Schoutheete, Belgium's experienced ambassador, sits next to Sir John.

Opposite, in more ways than one, sits Mr de Boissieu, the most distinctive character in either conference. He is a representative of left-wing government but, despite, or perhaps because of, the fact that he is a proclaimed monarchist, as well as being a member of the late General de Gaulle's family, Mr de Boissieu carries the baton for Mitterrandist France extraordinarily well.

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EUROPEAN NEWS

G7 stays hand over Soviet debt safety net

By Peter Norman, Economics Correspondent, in London and John Lloyd in Moscow

SENIOR finance ministry officials from the Group of Seven industrial states want to hear how the Soviet republics and centre will service existing foreign debt before agreeing to tide them over possible liquidity problems.

The so-called G7 deputies are waiting for Moscow to reply to a letter sent last Friday. In the meantime they have asked treasury and central bank officials in the US, Japan, Germany, France, Britain, Italy and Canada to start working out details of a support package that can be discussed with the authorities in the former Soviet Union.

Following a deputies' meeting in Paris last Wednesday, the G7 countries are ready to help the Soviet Union through an external payments crisis. An official silence has surrounded the G7 deliberations but it is known that they have been considering deferring payments of principal by the Soviet Union, a standby credit through the Bank for International Settlements (BIS) and placing a financial safety net under the Vnesheconombank, the Soviet Bank for Foreign Economic Affairs.

However, they are also anxious that the Soviet centre and republics should play their part in meeting their obligations, notably by ensuring that

Mr Boris Fedorov (34), head of Soviet affairs in the merchant banking division of the European Bank for Reconstruction and Development and a former Russian finance minister, is expected soon to be named as chairman of the Russian central bank, writes John Lloyd in Moscow.

An economic radical who has worked on earlier reform programmes, he is close to the team of ministers and advisers - led by Mr Egor Gaidar and Mr Alexander Shokhin, deputy prime ministers of the new Russian government - now in charge of Russian reform. Mr Gaidar, interviewed by *Izvestia* yesterday, said he had been given authority by Mr Boris Yeltsin, the Russian president, to appoint ministers and officials "who think alike". He said Mr Fedorov was likely to take over the central bank in the near future.

foreign exchange earnings received in the republics are channelled to the centre to service the union's hard currency debt, reported by the independent news agency Interfax yesterday to have reached \$81bn.

The G7 deputies are standing ready to go to the Soviet Union for talks with the representatives of the republics and the centre as part of the continuing dialogue agreed in Bangkok last month. However, western creditor countries seem to be accepting that they will have to work more closely with the republics.

The Soviet Union was up to date with its debt service obligations as of yesterday, according to G7 officials. But they expect it will experience problems by the end of the year.

As Moscow's authority over the 12 republics dwindles, Pres-

ident Mikhail Gorbachev will warn the republics' leaders on Thursday that they must either take seriously the economic treaty they agreed with Moscow, or give up any pretence of co-operating with the central authorities.

Soviet officials are increasingly concerned about the effect of the republics' independence moves on the country's social stability and its ability to gain western support.

The meeting of the State Council, which also comprises members of the inter-republican Economic Committee, will be given a list of proposals to which the republics' leaders will be asked to agree. These include a central banking system, common policies on trade, labour and social security, and willingness to pay for central programmes and institutions.



A Chechen tribesman celebrates after the Russian parliament asked President Boris Yeltsin to lift the state of emergency in the Chechen-Ingush republic yesterday.

Portuguese premier promises expansion

By Patrick Blum in Lisbon

MR Anibal Cavaco Silva, Portugal's prime minister, yesterday promised further economic expansion and substantial administrative and electoral reforms, in outlining his new government's programme.

The programme presented to the national assembly (parliament) envisages maintaining an economic growth rate above the average achieved by Portugal's European Community partners in order to accelerate economic and social convergence with the rest of the EC.

Fighting inflation - now over 11 per cent on an annualised basis - will remain a priority to allow Portugal to participate fully in European monetary and economic union.

Mr Cavaco Silva said inflation would be firmly within single digits next year.

The government will seek to maintain the present high level of employment - with 4.1 per cent out of work, Portugal enjoys the second lowest level of unemployment in the Community after Luxembourg - but the prime minister warned of the need for wage restraint.

Employment and investment will be encouraged above all in the productive sectors to improve efficiency, as well as in old sectors that are badly in need of restructuring. Investment and competition will be the key elements in restructuring the weakest sectors of the economy, such as textiles and agriculture.

Delphic Mitterrand regains the initiative

Ian Davidson on French constitutional reform plans

FOR THE past six months, ever since appointing Mrs Edith Cresson French prime minister, President François Mitterrand has been in trouble. Both have sunk steadily in the polls, and the second half of Mr Mitterrand's presidency seemed to be declining and fading.

The odds on that prospect have now subtly changed, as a result of his announcement on Sunday that he would present wide-ranging reforms of the constitution. He has yet to reveal details, and it is hard to see how they can override the consistent verdict of the opinion polls, which point to a big victory for the right-wing opposition in the 1993 general election.

But the central new fact is that Mr Mitterrand is once again using his control of the levers of power to seize the psychological initiative. One cannot entirely rule out that he will be able to destabilise the conservative opposition by intervening with a judiciously timed debate on the future of the constitution, in which his presidential authority will carry the greatest weight.

In his Sunday night television interview, the president was characteristically delphic. He indicated clearly the parts of the constitution he wished to reform, but he did not reveal exactly how he wished to reform them. These reforms fall under four main headings.

● Shortening the presidential term - currently seven years, but he will propose a cut to five. But clearly he intends to give himself maximum freedom of manoeuvre, since he would not say whether he would retire after five years or stay until

the end of his legal term in 1995.

● Strengthening the role of parliament, which he says is being "stifled". The national assembly has always been a subordinate element in the Fifth Republic, but never more so than today, when the government is short of a parliamentary majority; it is regularly compelled to side-step formal votes, and is only able to ram legislation through by challenging the opposition to table a censure motion. A change in parliament's role would seem to require either an increase in its powers, or electoral rules to ensure governing majorities, or both.

● Strengthening the Constitutional Council, and the judiciary's independence.

● A change in the voting method for the 1993 legislative elections. This is not strictly a constitutional change, since it can be introduced by a simple vote in parliament, but it clearly has a significant impact on the functioning of the Fifth Republic, and is manifestly part and parcel of the Mitterrand strategy.

Constituency members are currently elected by majority vote in two rounds of voting. Mr Mitterrand indicated on Sunday he intends to switch to a partially proportional method, which he said would ensure that all currents of opinion in France would be represented, and at the same time guarantee a national assembly which was not "ungovernable".

The astuteness of his initiative is that leading opposition politicians have long campaigned for most of the component elements, and must there-

fore welcome the changes. Shortening the presidential term to five years and strengthening parliament are now on everybody's platform, both left and right.

On the other hand, the opposition will fiercely oppose a shift to proportional voting, out of fear that it could rob them of victory in 1993. A recent simulation published by the conservative-inclined *Figaro* newspaper suggests that there is no change in the voting rules which looks likely to give the Socialists a victory; but there could be some variant of proportional voting which would rob the traditional conservatives of a majority, by opening the door wide to the Ecologists and the extreme right-wing National Front.

What the conservatives will fear most of all, however, is not the details of the constitutional reform, but the strategy which ties it all together: a referendum campaign conducted by François Mitterrand.

If he wins, his side could gain extra momentum in the 1993 election as the champions of constitutional reform. If he loses, he could resign (like General de Gaulle in 1969) and thus precipitate a sudden presidential election. In that election, the leading conservative candidates, former President Valéry Giscard d'Estaing and former prime minister Jacques Chirac, would be at each other's throats; and both of them would be liable to be defeated by either of the possible Socialist candidates, Michel Rocard or Jacques Delors.

President Mitterrand is not out of trouble yet, and his gamble may not come off. But he is not finished yet.

Call for tighter Irish budget

By Tim Coone in Dublin

AS Ireland awaits details of the big cabinet reshuffle expected today, the Confederation of Irish Industry (CII) yesterday published its recommendations for the 1992 budget.

The report calls for tighter targets than those set by Mr Albert Reynolds, the finance minister sacked last week in a leadership challenge to Mr Charles Haughey.

The CII calls for the Exchequer Borrowing Requirement (EBR) to be reduced to 1.5 per cent of GNP next year, a year earlier than the target set by Mr Reynolds. The lobby group also wants to see the national debt/GNP ratio reduced to 100 per cent in 1993, and to be

reduced "to the current EC average of about 60 per cent by the year 2000 at the latest".

The report recommends that the government "should adhere to the existing policy of eliminating the EBR within the shortest practicable timescale".

The CII is also worried about corporate taxation levels, which it says are higher than in much of Europe as a percentage of GNP. "Ireland faces intense and growing competition in the fight to attract and retain mobile and international investment... and must necessarily depend to a great extent on corporate tax incentives in order to provide a favourable environment for enterprise."

the report notes.

Manufacturing industries now pay a maximum corporate tax rate of only 10 per cent in Ireland. This incentive, together with a range of other tax breaks and incentives, has led some 120bn (£3.3bn) to industry, according to figures given by Mr Reynolds.

Last month Mr Reynolds agreed with leaders of the Progressive Democrats (PDs), the junior partners in the coalition government, to reduce substantially personal tax rates in the next two budgets. This would require some 12450m in lost revenue to be made up through a reduction in tax breaks available to the corporate sector.

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IMF's man in Moscow looks to individual initiative

By Leyla Bouillon in Moscow

LAST week, a French civil servant with business experience became the International Monetary Fund's man in Moscow, the first permanent representative of an organisation the Soviet Union once damned as a nest of capitalist plotters.

Whether by chance or design, Mr Jean Foglizzo, 46, joins a team of Frenchmen occupying jobs closely linked to external assistance for Soviet reform. Others include his boss, Mr Michel Camdessus, the IMF's managing director, and Mr Jacques Attali, who heads the European Bank for Reconstruction and Development.

The tidiness of the IMF's one-room office in the luxurious Metropol Hotel - "This is a no-smoking area."

"The difficulty is for the Soviets not to sink in a sea of advice...it is the people who will play the key role"

says the sign. "Please leave your coat at the entrance" - contrasts sharply with the singularly messy task the west's most powerful financial institution faces in helping to sort out the Soviet economy.

Mr Foglizzo said in an interview that the intention was to build up the IMF presence in Moscow to a team of 10 to 20 people - bigger than any of the 40 other permanent representations around the world - though the IMF's role is smaller than in most other countries.

While the IMF's traditional role is

to provide balance-of-payments assistance to countries implementing a programme of economic reform, a special associate status has been created to govern its relations with Moscow.

This means that the IMF will be sharing with reformers in Moscow and in the republics some of the world's best expertise on everything from central banking policy to compiling statistics.

But access to IMF funds will not be available until the Soviet Union, or individual republics, obtain some

form of full membership. And that won't be possible until what Mr Foglizzo terms the "political impasse" over the future shape of the country is resolved, since only fully-fledged states can join.

But Mr Foglizzo, who began learning Russian out of enthusiasm for Russian culture, professes optimism about the prospects for successful economic reform in the disintegrating Soviet empire.

He notes that the Soviet Union has a debt half the size of that of Mexico, but a population five times as large.

Born in Morocco as the son of a French school director of Italian ancestry, Mr Foglizzo is a product of the best education France can offer. After completing both the presti-

gious Ecole Polytechnique and the Ecole Nationale d'Administration, he began a varied career which took in 10 years with the French Treasury, two years with the IMF in Washington, and eight years as a banker and businessman in New York.

He returned to the IMF in January this year, landing the Moscow job partly thanks to his knowledge of Russian and to a background that included both public and private managerial experience.

His main conclusion from switching out of public service to private business is that governments should do all they can to encourage individual initiative while keeping their own role to a minimum.

He advocates a similarly humble

role for foreign governments and institutions wishing to assist Soviet reforms. "The difficulty is for the Soviets not to sink in a sea of advice," he says.

In the end, he believes, it is entrepreneurs and individuals at grass roots level who hold the key to success.

"What we can do is force people to prove to you scientifically that if you don't fix this problem, you are going to have major trouble ahead."

"I'm very humble. I'm not the only expert to work on the Soviet Union. There are hundreds of us, and anyway it is the people who will play the key role in turning round their own economy."

Bulgaria to pursue tight policy on inflation

By Judy Dempsey

THE prime minister of Bulgaria intends to pursue a tight monetary and anti-inflation policy, despite the continuing fall in industrial production, energy shortages, and growing unemployment.

Mr Filip Dimitrov, a 36-year-old lawyer who heads Bulgaria's first non-communist government for over 40 years, recently told the Bulgarian parliament that "the priorities include combating inflation and stabilising the economy."

His cabinet is made up of members from the Union of Democratic Forces, a loose collection of political parties which won 34.36 per cent of the vote and 110 of the 240 parliamentary seats in last month's election. The Socialist (former communist) party won 33.14 per cent, and 106 seats.

The government's slender majority in parliament will be complemented by the Movement for Turkish Rights and Freedom, which won 24 seats. The cabinet includes Mr Ivan Kostov and Mr Ivan Pashkarov finance minister and industry minister respectively in the outgoing coalition government.

The tasks facing Mr Dimitrov are formidable. On the economic front, he will have to stem the rapid decline in industrial production, which, compared to last year, has fallen 21 per cent over the past nine months.

He will also have to push through legislation to make Bulgaria attractive to the foreign investor, as well as speed up privatisation - which so far has been piecemeal and involved the privatisation of monopolies rather than the expansion of competition.

Leipzig's renovation held up by legal jungle of property claims

Andrew Fisher reports on a muddled legacy of unrecorded ownership that could take decades to untangle

JOHANN Sebastian Bach is being well-looked-after in Leipzig. The church where he was choirmaster for 27 years, the Thomaskirche, is being given a facelift, with the composer's imposing statue protected by scaffolding from falling masonry.

Buildings throughout Leipzig are being renovated, and the grime of decades of Communist neglect is being eagerly scrubbed away. Even the trade fair site at the edge of Leipzig will be moved nearer to transport links.

This will free a large area for development by the city, which is desperate for land unencumbered by property claims.

For despite the immense reconstruction needs of Leipzig, and the strong interest shown by investors, there is a lack of big projects. The resulting frustration shows through clearly as Mr Hinrich Lehmann-Grube, the mayor, outlines Leipzig's prospects, which are considerable, and its problems, which are daunting.

By far the greatest difficulty, he asserts, is the confusion and delay caused by people wanting back their old property.

Despite attempts in Bonn to sort out this muddle, it is still a considerable hindrance to economic development, Mr Lehmann-Grube says. "It's a legal jungle and we have to go through it very laboriously."

Leipzig's fledgling administration is burdened with as many as 20,000 claims on properties large and small, some of which the city would like to make available for hotels, offices, and businesses, in all of east Germany, more than 1m

such claims have been lodged.

"We could have 20 big building sites here," he says, if development was not held up by the desire of former owners to have their property back. There could be many more large projects in the wider city area.

Mr Lehmann-Grube, who was city executive in Hanover before taking office in Leipzig in June 1990, says the political lobby of former owners has hindered attempts in Bonn to clear up the property tangle.

Because the restitution rights of former owners were written into the unity treaty, east German authorities have been inundated with claims.

The government subsequently acted to give priority to new investors and pay compensation to former owners. But claimants can still present their own projects or take obstructive legal action. The mayor says he would need a host of lawyers and officials to clear the backlog. New investors want secure property rights, not least to use as security for bank financing.

There is another problem.

Because the old East German regime tried to eliminate the idea of private property and never properly surveyed or registered land used by the state, the question of ownership is muddled further. Altogether, says Mr Lehmann-Grube, the property problems could take decades to sort out. "This is not properly understood in west Germany."

Mr Lehmann-Grube, a Social Democrat, is adamant that a

failure to solve the property situation will delay economic recovery and cost the Bonn government and taxpayers more in the long run; he wants the principle of compensation to be paramount.

"The interests of several hundred thousand former owners have been put before the vital interests of 10m inhabitants of east Germany." Without a clear solution to the property issue, economic recovery will be held back and there will not be enough sites for new businesses. "No city administration in the world could solve this problem in a short time."

Yet despite his frustration on this issue, he is optimistic about Leipzig's chances in united Germany. Once the country's fourth largest city - now 15th - Leipzig has made an encouraging start in the unfamiliar environment of the free market. Unemployment is less than in the rest of east Germany, below 9 per cent; it rises to nearly 20 per cent if short-time working is included, still well under the east's average. The air is cleaner, though there is still a big environmental clean-up job to do. And banks, insurance companies, and other service businesses have flocked to Leipzig.

As yet, however, the city is still short of money. "We are living from hand to mouth," Mr Lehmann-Grube says. Leipzig is surviving on funds provided from Bonn via the state government of Saxony, in which Leipzig is located.

In west Germany, he notes, a town the size of Leipzig, with some 500,000 people, would

have business tax revenues of around DM600m (\$370m); at present, it has only DM60m.

Whatever its present problems, though, a positive spirit is apparent in Leipzig, which has strong cultural and commercial traditions. For years, it was under the heel of East Berlin, its needs neglected and many of its buildings allowed to decay. The city had its revenge two years ago, however. It was there that the demonstrations began which led to the eventual toppling of Erich Honecker's regime.

People may be more subdued today, but most still look forward to a more positive future, the mayor says. "The mood is divided. People feel more secure and pleased that the past regime has gone." But they have to bear huge burdens, social, economic, and psychological. "When everything changes at once, it is a huge challenge and a huge learning task."



Deeply frustrated at delay: the mayor of Leipzig, Hinrich Lehmann-Grube

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For a New Wave of Opportunities

Soviet, Finnish groups in accord on Kola Peninsula joint venture

By Enrique Tessieri in Helsinki

INSNOORIRAKENTAJAT and Haka, two Finnish construction groups, and TSO Murmanskstroi, a Soviet construction group, have established a Kola Peninsula-based joint venture called Sombak Murmansk.

The peninsula is part of the Soviet Union, near Murmansk. Sombak Murmansk, which is aiming to take advantage of the big projects to develop the economic potential of the Kola Peninsula throughout the 1990s, will be controlled 50 per cent by TSO Murmanskstroi,

30 per cent by Insnoorirakentajat and 20 per cent by Haka.

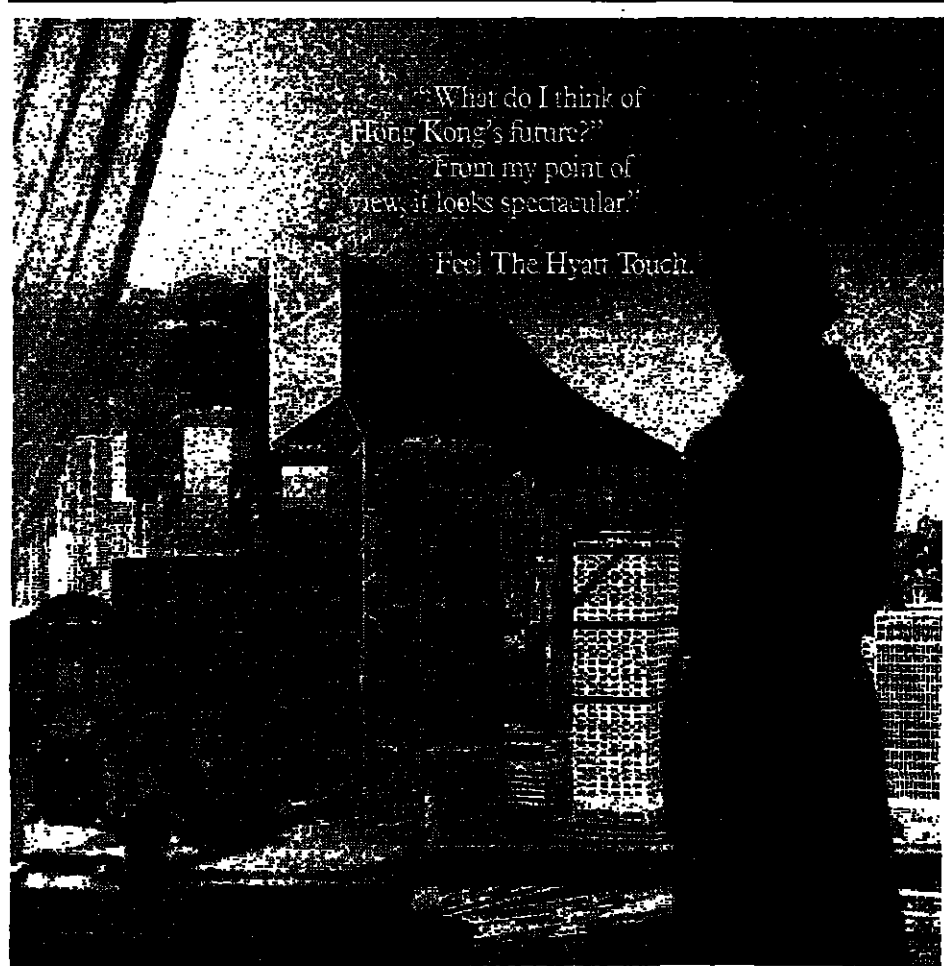
Apart from the Norwegians and Americans, the Finns are also hoping to play an important role in helping to develop the region's vast offshore gas and mineral resources.

Mr Martti Rautas, a Haka director, said Sombak Murmansk was looking at such big projects as the one to renovate a large nickel smelter at the Russian town of Nikel.

Outokumpu, a Finnish base metals group, last month sub-

mitted a tender to the Norilsk Nickel Group for the renovation of the Petsangankel's nickel smelter. The three-year project would require many sub-contractors and cost around \$640m to complete.

Through the so-called Kola project - both Helsinki and Moscow have been aiming at the development of the Kola Peninsula in the areas of mining, offshore exploration, environmental protection, scientific co-operation and management training.



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WORLD TRADE NEWS

Japanese, Slovaks to link up for Russian oil search

By Ariane Genillard in Prague

SLOVNAFT, the largest Slovak oil refinery company, will this week sign a joint venture accord bringing together Slovak and Japanese capital to extract crude oil in the Russian Federation.

Under the pact, the new company will be owned 50 per cent by the Russian Megon Neftegass25 per cent by C. Itoh of Japan and 20 per cent by the Slovak side.

The other 5 per cent will be owned by an undisclosed Swiss businessman. The company will exploit oil fields in the Siberian region of Nizhnevartovsk. An annual output of 2m tonnes of crude is expected to be extracted by 1993, with 20 per cent refined in Slovakia.

Slovnaft hopes the investment will help compensate for the company's decline in output in the past two years. Between 1989 and 1990, the amount of crude refined at Slovnaft dropped from 8m tonnes to 6m tonnes of crude.

But profits have remained stable due to price rises following the price liberalisation programme which started in Janu-

ary. The venture shows the attempts of both Slovak and Czech companies to develop reliable business links with individual Soviet republics and companies.

Slovak plants, with output traditionally geared to Soviet markets, have been particularly hit by the fall in trade with its former partners.

But Slovak companies are increasingly finding ways to strike new business with Soviet partners. Earlier this year, an agreement was signed to set up a trading house to specialise in Slovak-Ukraine trade, using national currencies and barter deals.

Barter deals have most often involved Slovak companies trading foodstuffs and consumer goods for raw materials.

Economic pacts between Slovakia and Soviet republics have kept the Slovak government busy, with representatives from the Slovak industry ministry making over 30 official visits to Soviet republics, including the former Baltic republics and Georgia, this year.

Japanese companies in micromachine agreement

NINETEEN leading Japanese industrial companies, including Fanuc, Hitachi and Toshiba, have agreed to work together to develop micromachines - tiny machines less than 1mm in size, Steven Butler reports from Tokyo.

Micromachines are as yet an exotic field of technology. The tiny devices are expected eventually to be used for internal medical inspections and operations, and for inspection and repair of nuclear plants.

The companies have agreed to establish a Tokyo-based foundation, capitalised at ¥200m (286.500) to begin operation by the end of this year. The foundation will promote development of the machines.

The foundation is also planning to apply to the Ministry of International Trade and Industry (Mit) for financial support.

Miti has a budget of ¥25bn to spend over the next 10 years to support the development of micromachines and is accepting funding applications from a wide range of companies.

The pattern of Japanese industrial companies working together with the support of Miti has been a key element in the development of important Japanese industries, ranging from computers to semiconductor chips.

The foundation, to be headed by Mr Seiemon Inaba, president of Fanuc, has left the door open to foreign participation, saying foreign companies are welcome to join the group once its operations have begun.

Other companies participating in the foundation include Yaskawa Electric, Omron, Mitsubishi Electric, Fuji Electric and Olympus Optical.

Warning of 'disaster' in end to US textile quotas

By Nancy Dunne in Washington

A COALITION of US textile and clothing groups has released a study warning that a proposed 10-year phase-out of textile and clothing quotas would bring "disaster" to their industry while "rewarding" the main Asian suppliers in China, India, Pakistan and Indonesia.

The US has made this proposal in the trade liberalisation talks of the Uruguay Round under the aegis of the General Agreement on Tariffs and Trade (GATT). The study concludes that elimination of textile and clothing quotas over the next decade would cost the US industry nearly 1m jobs and up to 60 per cent in output losses. Its release, at a time of wide concern about the loss of US manufacturing jobs, greivous the debate ahead if a final Uruguay Round package comes up for approval in Congress in a time of recession.

The study, produced by an independent trade consulting firm, was contracted by the Fiber, Fabric & Apparel Coalition for Trade (FFACT). It says that if current quotas under the Multi-Fibre Arrangement, extended for 17 months last July, stay in place, domestic output of textile and apparel products would slightly increase over the next decade.

"By removing all MFA import quotas, as proposed in the draft agreement, employment in 2002 would fall from 1.7m workers today to 780,000."

Mr Michael Daniels, a lawyer for the US Association of Importers of Textiles and Apparel, said the study makes too many assumptions about a final agreement on textiles in the round. "No one knows the final phase-out percentages or the growth formula," he said.

It assumed a static market, all quota growth filled, and "our industry will become all of a sudden non-competitive in areas where it is competitive."

Mr Donald Hughes, chairman of FFACT, said US suppliers, including manufacturers of fibres, chemicals and machinery, would also suffer job losses.

Asia-Pacific trade bloc struggles for identity

But talk of rivals and enemies in one grouping is premature, John Ridding writes

FOR compelling evidence of how economic ties across the Pacific region are overcoming traditional rivalries, one need look no further than the third ministerial meeting of the Asia Pacific Economic Co-operation group (Apec), which gets under way in Seoul tonight.

The meeting is set to achieve what many would have said two years ago was impossible: Beijing, Taiwan and Hong Kong will sit together as new members, and in the capital of the far-eastern of China's closest ally - North Korea.

Qian Qichen, Chinese minister of foreign affairs, will be the most senior visitor from Beijing to Seoul since the Korean peninsula was divided in 1945. He will sit at the same table as Mr Vincent Siew, Taiwan's economics minister, and Mr Chau Tak Hay, his Hong Kong counterpart. Given the raw and untamed nature of these relationships, it is hardly surprising the regional economic forum is still finding its identity.

It is tough enough that its original 12 members share so few common economic interests: Japan and South Korea in north-east Asia; the US and Canada on the Pacific's eastern rim; Australia and New Zealand far to the south; the Association of South East Asian Nations (Asean), comprising Thailand, the Philippines, Singapore, Malaysia, Brunei and Indonesia. The three new members can only compound difficulties in defining shared goals.

Nevertheless, this week's discussions between the trade and foreign ministers of all 15 may prove an important step in determining how the region responds to the growth of international free trade zones and increased economic integration across the Pacific.

The significance of this week's meetings will extend beyond the region. In particular, they bring together many of the most important partici-

pants in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). With negotiations in Geneva at a critical point, conversations in Seoul may help determine their outcome.

"We don't want this week to turn into a mini-Uruguay Round," a senior official in Korea's trade ministry said. But with the US and EC apparently making progress in Geneva on the critical issue of farm market liberalisation, and with most of the remaining antagonists assembled in Seoul, that may be hard to avoid.

Mrs Carla Hills, US trade representative, has arrived early in Seoul. Along with representatives from the Cairns Group of 14 farm exporting countries, in particular Australia and South Korea to accept the opening of their rice markets.

Japanese negotiators have recently shown some flexibility on the issue, indicating they might accept limited opening of their market. But Seoul has continued to insist rice be excluded from liberalisation on the grounds of non-trade concerns. With presidential and parliamentary elections due next year, and farm liberalisation a certain vote-loser, a breakthrough will not be easy. In Seoul, the future will also be difficult. All are agreed that part of the group's role should be to develop improved co-ordination between the various members of the world's most dynamic economic area and to



South Korea's trade and industry minister Lee Bong Suh meets US trade representative Carla Hills ahead of the talks

expand mechanisms for co-ordinating growing trade and investment links. But beyond that, the blueprint is blurred.

According to International Monetary Fund statistics, total intra-Apec exports of the 12-member grouping amounted to \$377bn (\$323.8bn) in 1989, more than double the level in 1980. During the period, the value of intra-Apec exports as a proportion of Apec economies' total exports also increased, from 45.9 to 56.4 per cent. But increased economic interdependence has not been matched by the growth of institutions for co-ordination: "We need a framework to manage our interests," one Australian diplomat said.

Under the aegis of Apec, such mechanisms are being put in place. Ten working groups, covering areas from telecommunications to trade promotion and collation of consistent data between the various countries, have been hard at work since the end of last year. Officials say they are pleased with the progress.

But beyond this, the business of the grouping becomes much less clear. The meetings in Seoul are unlikely to yield agreement on setting up a permanent Apec secretariat, an institution regarded as necessary for creating a more formal organisation. The declaration to be issued after the meeting is expected to be vague.

This lack of direction partly reflects the youth of the organisation, but also the diversity of interests of a group that ranges from commodity producers such as Australia and Asean's six members to the manufacturing powers of Japan, South Korea and Taiwan. At the same time, the delicate stage of the Uruguay Round encourages a wait-and-see attitude.

For the economies of the Asia-Pacific, a desire for a successful Uruguay Round has grown in tandem with their fears of expanding international trade groupings.

"We are very concerned about the growth of trade blocs," says Mr Yu Deuk Hwan, assistant minister for trade policy in Seoul. "With the formation of the European Economic Area and the North American Free Trade Area, Korea is very much isolated."

Seoul's concerns are shared by its neighbours in the region. But there is less consensus on how to address them. While most Apec members, especially the US, oppose any kind of regional trade bloc, there is some support. Malaysia in particular has been seeking support for a regional grouping, now named the East Asian Economic Caucus.

At the same time, Taiwan has recently proposed an economic bloc comprising the three Chinas. The combination of China, Taiwan and Hong Kong would create "an industrial zone second to none," Mr Siew says. He has described a greater Chinese common market as a long-term goal.

For the foreseeable future, talk of Asia-Pacific trade blocs is premature. The US, which saw its trans-Pacific trade accelerate past its transatlantic trade in the 1980s, opposes the idea. With most of the Asian economies dependent on the US as their first or second-biggest export market, such an objection is hard to surmount.

Partner	Exports (\$bn)				Imports (\$bn)			
	1980	1987	1988	1989	1980	1987	1988	1989
World	534,010	746,221	906,376	988,136	570,738	820,103	953,522	1,058,455
Asean	38,287	45,077	59,521	72,880	58,684	67,596	87,596	78,932
Apec	250,715	421,833	502,633	556,941	299,967	438,516	523,741	582,987
Asean/total	7.2%	6.0%	6.6%	7.3%	8.9%	6.9%	7.1%	7.5%
Apec/total	46.9%	56.5%	55.3%	56.4%	47.3%	53.5%	54.9%	55.1%

Source: IMF, Direction of Trade Statistics

UK concern at Japanese car curbs

By John Griffiths

A UK motor industry delegation yesterday met Mr Peter Lilley, UK trade and industry secretary, to express growing concern that France and Italy might seek to curb distribution of UK-built Japanese cars despite a recent EC-Japanese "understanding" on Japanese car sales in Europe after 1992.

Mr Colin Hope, president of the Society of Motor Manufacturers and Traders, urged Mr Lilley to ensure adequate EC monitoring arrangements are put in place to stop other EC countries finding ways to block sales of such vehicles.

The UK industry's concern has grown after Italy and France made clear their dissatisfaction with the vaguely-worded understanding, covering both EC-built Japanese cars and direct imports from Japan, reached in July.

Last week, Mr Dominique Strauss-Kahn, French industry minister, told a parliamentary commission France reserved the right to retaliate if Japan failed to meet the "spirit" of the understanding.

France insists Japanese cars built in the EC are included in overall sales projections for Japanese cars during a transitional period to a completely open market in 1999. Japan, backed by the UK, insists no such curbs exist.

Other companies in France and Italy to protect their industries by vetoing adoption of common EC technical standards for cars appear to have been thwarted as a result of Spain indicating it will not join them in the veto.

Gatt welcomes US farm offer

By William Dullforce in Geneva

US PRESIDENT George Bush's decision to scale down US targets in the dispute over farm subsidies with the European Community won a positive but cautious reaction in the General Agreement on Tariffs and Trade (GATT) yesterday.

We are encouraged by the outcome of the meeting in the Hague on Saturday, a spokesman for Mr Arthur Dunkel, GATT director-general, said. The result of Mr Bush's talks with EC Commission President Jacques Delors and other Community leaders, on which Mr Dunkel had been fully briefed, "convincingly shows the work in Geneva (on the Uruguay Round) is on the right track".

However, the GATT official said, tough issues remained, and the utmost flexibility would be needed from participants to meet the end-of-the-year deadline for the Round.

Mr Dunkel has called farm negotiators to a meeting in Geneva tomorrow, but their discussion is likely to be limited to technical issues until the EC and the US have reached a firmer bilateral understanding on farm reform.

The next staging post in the EC-US dialogue will come tomorrow in Rome, where Mr Ray MacSharry, EC farm commissioner, is due to meet Mr Edward Madigan, US agriculture secretary.

While acknowledging that EC and US farm negotiators are now discussing "realistic percentages" for cuts in farm

subsidies, US officials warned that translating percentages into mechanisms for effecting reductions could still be difficult.

Differences persist over the base year from which the reductions are to be calculated. The US wants reductions in export subsidies to be based on physical quantities, not on budgetary allocations alone. The EC has revived its demand for a fair settlement of its "rebalancing" claim which would allow it to continue controlling imports of feedstuffs.

So far, there is no agreement on which domestic supports to farmers should be included in the "green box" of measures that will be exempted from reductions.

Strasbourg backs EC farm move

By David Gardner in Brussels

THE EC's gradual moves towards a more flexible position on farm subsidies in the Uruguay Round world trade talks received strong backing yesterday from the European Parliament.

The legislative body endorsed a package of proposals close to what is understood to be the European Commission's negotiating stance.

The Strasbourg parliament's external economic relations committee also makes explicit the link between reform of the Common Agricultural Policy (CAP) and the GATT talks. Hitherto, this has been a connection the Commission has always formally disavowed.

In its conclusions on CAP reform and the Uruguay Round, the committee says that "the reform proposals of

the Commission imply a reduction of overall agricultural support and protection by more than the 30 per cent which the EC has offered so far in the GATT negotiations, and which our trading partners regarded as insufficient".

The keystone of the reform plan is a 35 per cent reduction in cereals prices over three years, with direct compensation to farmers de-coupled from the amounts they produce.

If all these direct payments were put in the GATT "green box" for subsidies which do not distort trade, the EC could theoretically deliver subsidy cuts of up to 55 per cent over five years within GATT, a confidential Commission study recently calculated.

The Parliament is supporting:

● A 30 per cent reduction over five years in farm support.

Washington and Brussels are discussing either these figures or a 35 per cent reduction over six years for export subsidies, in talks which resume today in Rome.

● A tariff quota on cereals substitutes such as corn, gluten feed. This would guard against artificial under-pricing of imports but would preserve "traditional trade flows" of about 15m tonnes a year from the US.

The Commission is understood to want a freeze on imports of feedstock substitutes at current levels, as a *quid pro quo* for reducing cereals exports, which annexes to the CAP reform plan see falling by 17m tonnes a year.

Bae in race to build \$1.5bn Athens airport

THE Greek government yesterday narrowed to four from nine the number of international consortia submitting offers to build a \$1.5bn (287m) airport for Athens, AP-DJ reports from Athens.

Deputy Premier Tassios Tsamirakidis said the four groups chosen to take part in the final phase of selection included British Aerospace, Hochtief of West Germany, Lockheed Air Terminal of the US, and Societe Auxiliaire d'Entreprises of France.

Mr Tsamirakidis said the applications submitted by the nine participating consortia had been assessed with the help of Solomon Brothers, the financial advisers to the government for the airport project.

The project file containing the terms and conditions on which the four groups will base their final tenders will be given to them in December. The contract is expected to be allocated in the spring of next year.

The contract is for construction of a new Athens airport at Spata, 55km south-east of the capital, on a "build-operate-transfer" basis.

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CDN \$50,000,000 - 13.50% Debentures due October 31, 1994
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Further to the successful corporate reorganization of Gaz Metropolitain, Inc. described in the Statement in Respect of the Reorganization of Gaz Metropolitain, Inc. dated June 12, 1991, notice is hereby given, that the interest rates on the above mentioned issues have been increased by 1/4 of one per cent per annum, effective August 12, 1991, date on which the assets of Gaz Metropolitain, Inc. were transferred to Gaz Metropolitain and Company, Limited Partnership.

Therefore, the interest payable on the relevant payment dates per \$1,000 denomination and multiples thereof, for each issue, will be as follows:

Secured Debentures (previously unsecured)	Denomination	First Payment	Subsequent Payments
14.50% - 92.12.01 (previously 14.50%)	\$1,000	CDN 145.76	147.50
13.50% - 94.10.31 (previously 13.50%)	\$1,000	CDN 135.55	137.50
10.625% - 94.12.18 (previously 10.625%)	\$1,000	CDN 107.13	108.75

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Miti unveils plan to increase imports of parts and capital goods

Baker seeks cut in Japanese trade surplus

By Stefan Wagstyl in Tokyo

MR James Baker, the US secretary of state, yesterday urged Japanese government ministers to redouble efforts to curb their country's rising trade surplus and to ease a ban on rice imports.

He also had to placate his hosts' irritation over postponement of a planned visit by President Bush, who had been due in Tokyo later this month.

Mr Baker, in Tokyo on a tour of

Asian capitals, had talks with Mr Ki-

ichi Miyazawa, the new prime minister,

and the ministers for foreign affairs,

international trade and industry and

finance.

Mr Baker expressed concern over the

US trade deficit with Japan, saying it

now constituted 70 per cent of the total US deficit. He pressed Japan to adopt further specific market-opening measures - including opening the government procurement of supercomputers to foreign competition and increasing purchases of foreign-made car parts.

In reply, Japan unveiled a plan for large companies to increase imports, including imports of parts and capital equipment, boost local procurement in foreign countries, and expand commercial ties with non-Japanese groups through joint ventures and capital links. In a carefully staged announcement, the Ministry of International Trade and Industry (Miti) said

the scheme, called the Business Global Partnership, embraced about 40 leading companies in industries including cars, electronics, steel, and machine tools.

Companies would be asked to submit "voluntary plans," said Miti. The project is very similar to previous import-boosting measures. Its novelty lies in its emphasis on importing parts and capital equipment - products which many Japanese companies are loathe to buy from non-Japanese - and in co-operation with foreign groups in overseas markets. However, Miti will have no power to force companies to co-operate, nor will it set standards by which businesses will be judged.

Both in meetings and in a speech, Mr Baker pressed Japan to do more to promote a successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade, which has stalled over agricultural issues.

Mr Baker urged Japan to ease its ban on rice imports but Mr Miyazawa said the proper place for discussing rice was at the Gatt. But he pledged to work towards a successful conclusion of the Uruguay Round.

Mr Baker was due in Seoul today for a ministerial meeting of the Asia-Pacific Economic Co-operation (Apec) conference. After that he is due in Beijing for talks with Chinese leaders.



James Baker, US secretary of state, being welcomed by Kiichi Miyazawa, Japan's prime minister

Unholy row grips Japan's religious groups

Stefan Wagstyl looks at friction between an old Buddhist order and its lay affiliate

A MOST unholy row has broken out between Japan's highest religious group and its lay affiliate over the latter's alleged indiscipline, corruption and involvement in scandals, including tax dodging on the sale of grave-

stones. Nichiren Shoshu, a Buddhist group founded in the 13th century, last week ordered Soka Gakkai, the lay affiliate, to disband or face excommunication.

Soka Gakkai responded by demanding the resignation of Mr Nikken Abe, Nichiren Shoshu's high priest, and declaring it would ignore the monks' orders.

It has also started to break Nichiren rules by holding weddings and funerals without Nichiren monks in attendance.

Soka Gakkai accused the monks of misusing believers' donations by "running about madly playing golf and living spendthrift lives".

It also claimed Nichiren monks were exceeding their authority, for example, by condemning the singing of Beethoven's Ode to Joy at Soka Gakkai meetings.

Even though most Japanese

have little interest in religion

beyond the ceremonies mark-

ing births, marriages and

deaths, the tale of Nichiren

Shoshu and Soka Gakkai has

gripped the country.

At its heart is a long-standing

tension between the con-

servative monks of Nichiren

Shoshu and the aggressive

leaders of Soka Gakkai, who

have created the largest and

wealthiest lay organisation in Japan and along the way founded Komeito, the country's third largest political party.

Founded in 1930, Soka Gakkai has been led since 1960 by Mr Daisaku Ikeda, a larger-than-life figure who is revered as a god by some of the movement's 8m member families. Under Mr Ikeda's leadership, Soka Gakkai has established schools, colleges and accumulated one of Japan's largest art collections.

The group has been frequently accused of putting profit before prayer and of cutting corners in its over-zealous pursuit of yen.

This year it topped the list of non-profit organisations which had failed to report tax: it omitted to disclose Y3bn (£13m). Separately, Soka Gakkai admitted failing to report Y2.38bn from the sale of grave-stones in five cemeteries. The group's total income is estimated at over Y100bn.

Soka Gakkai figured this summer in a scandal involving the purchase of two Renoirs - After the Bath and Young Girl Reading - from Mitsubishi Corporation, the trading company.

Mitsubishi said the paintings had been bought and sold for Y3.6bn. But tax officials who investigated found evidence of deals worth only Y1.2bn. Mitsubishi said it could not account for the missing Y1.5bn and wrote it off as "entertainment expenses".

Soka Gakkai was also named in the stock market scandal

which stemmed from stockbrokers compensating favoured clients for trading losses. To the disgust of some of its followers, the organisation was one of the recipients of the brokers' largesse.

Nichiren monks say they are appalled at Soka Gakkai's behaviour. "These activities highlight how the organisation has deviated from what a religious grouping should be," said Nichiren in a statement issued from its vast head temple in

Shizuoka prefecture, south of Tokyo.

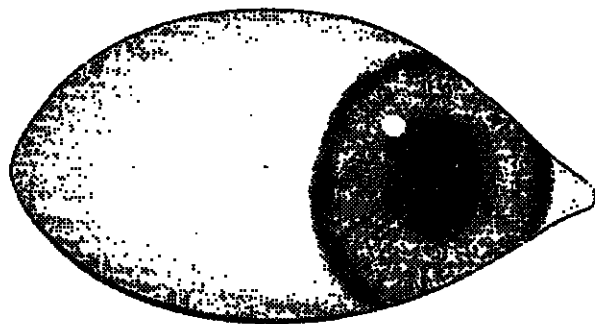
The monks are also worried about Mr Ikeda's increasing willingness to pronounce on matters of faith. Late last year, Mr Ikeda was condemned by Nichiren Shoshu for saying that sermons of Mr Abe, the head monk, were incomprehensible. "Mr Ikeda makes statements which disgrace the name of Nichiren," said the monks.

Soka Gakkai said the organi-

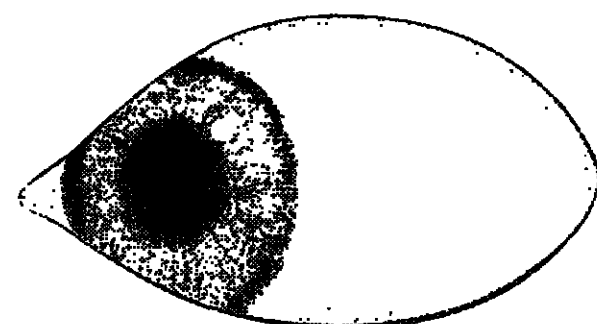
sation would continue its activities - religious and otherwise - whatever the monks did. There was no reason for the group to disband.

What Nichiren himself would have made of the divisions among his followers is anybody's guess.

A central tenet of his teaching was the belief that individuals themselves must be transformed before society as a whole could change for the better.



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HK banks tighten up on mortgage lending

By Angus Foster in Hong Kong

HONGKONG Bank and its subsidiary Hang Seng Bank are tightening their mortgage lending policy as concern mounts about Hong Kong's overheated residential property market, where some prices have risen 40 per cent this year.

The move follows a package of measures announced by the government last week to quell speculation on residential flats. Many property analysts believe the government's measures did not go far enough.

The two banks, which control more than 30 per cent of Hong Kong's mortgage market, are cutting the percentage of mortgage financing on offer to buyers of new flats from 80 to 70 per cent.

It is the second cut this year and brings the limit to its lowest level for about five years.

Mr Paul Selway-Swift, general manager, Hongkong Bank, said current price levels were uncomfortable. "We do feel the market is getting into the over-heated bracket," he said.

Hong Kong's present property boom has been fuelled by limited supply and increased demand as confidence improved following the end of the Gulf war and agreement with China on Hong Kong's new airport.

Last week about 30,000 people queued for fewer than 2,000

flats being sold by Cheung Kong, the property development company controlled by Mr Li Ka-shing.

This imbalance has allowed property developers to dictate financing terms to banks wishing to be involved in new developments. Speculators, who buy and sell flats several times for profits of about HK\$100,000 (£7,250) a flat, have also been blamed for driving up prices.

The government's measures, which make stamp duty payable on every sale and purchase instead of only upon completion, are designed to eat up speculators' profits. But some speculators say they will pass on the stamp duty to the end purchaser.

Hong Kong's stock market, which expected tougher measures from the government, went to record highs after the package was announced.

Hong Kong's commissioner of banking recently wrote to the colony's banks urging caution towards property lending. Other banks in the colony, including the Bank of China, which provides about 20 per cent of Hong Kong's mortgage lending, are still offering 80 per cent financing.

These banks may now follow the Hongkong Bank and reduce their limits.

Government admits giving tranquilliser to boat people

By Angus Foster

THE HONG KONG government yesterday admitted that two Vietnamese boat people were administered Valium the day before they were forced back to Vietnam at the weekend, but the government continued to insist excessive force was not used.

Mr Clinton Leeks, refugee co-ordinator, said two women were injected with the drug on the advice of a doctor for medical rather than security reasons. The women were "very distressed" before they were taken to Kai Tak airport, Mr Leeks said.

The government made its statement following many complaints from the 59 boat people who were forced home on Saturday in the first mandatory return since 1989. The boat people, who included pregnant women, have alleged police beat them and tied their hands with wrist restrainers.

About 10 boat people had to

be carried on to the aircraft during the Saturday operation. They were clearly attempting to resist but were heavily outnumbered by police.

One of the boat people was arrested by Vietnamese authorities who claim he stole state property before leaving for Hong Kong.

A representative of the United Nations High Commissioner for Refugees has confirmed the man was arrested on theft charges.

Vietnam has pledged that returning boat people will not be persecuted for political reasons, although they remain subject to the law.

Tension remained high in Hong Kong's camps, where more than 65,000 boat people are housed.

Three demonstrations involving about 7,000 boat people took place yesterday, although the government said all the protests were peaceful.

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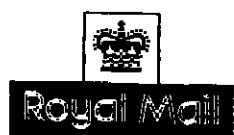
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INTERNATIONAL NEWS

Murder inquiry puts pressure on President Moi

Julian O'Connell looks at widespread allegations of corruption in high places that have surfaced in Kenya

IN A colonial courthouse in Kisumu, a sleepy town on the shores of Lake Victoria, a political time bomb is ticking away.

Evidence given at an inquiry into the mysterious murder of Mr Robert Ouko, the former foreign minister whose charred and mutilated body was found dumped in a field near Kisumu in western Kenya in February 1990, has already shaken the government of President Daniel arap Moi.

Among the most serious allegations has been the claim, made by European business representatives in affidavits presented to the inquiry by British detectives, that the three most powerful politicians in the President's inner circle – Professor George Saitoti, vice president and minister of finance, and Mr Nicholas Biwott and Mr Elijah Mwangale, both ministers, demanded kickbacks from an Italian contractor.

The inquiry, established by the government last year, has also heard that Mr Ouko was heading an internal probe into high-level corruption at the time of his murder. Whether the probe had official sanction is not clear; but whatever Mr Ouko may have uncovered seems to have angered several of his cabinet colleagues, worried that it might reveal their own illegal dealings.

An affidavit by Mr Ouko's brother

A British detective told an inquiry yesterday he believed Mr Robert Ouko, Kenya's then foreign minister, was murdered 20 months ago because he was leading an inquiry into high-level corruption. Reuter reports from Kenya.

Mr John Troon, who led a British police team called in to investigate the death also told the judicial inquiry that he was unable to complete his report because requests to interview senior government officials were turned down.

"I was told that the matter of the investigations would be taken from there on by Kenyan authorities," Troon said. He said Mr Philip Kilongo, Kenya's Police Commissioner, had directed him to submit his report prematurely although he had expressed a wish to interview senior members of the government.

Mr Eston Barak Mbajah from his US exile, made public but yet to be admitted before the inquiry, says shortly before Mr Ouko's death his brother had a strong dispute with Mr Biwott over "foreign accounts Biwott and other government ministers held in other countries".

Mr Mbajah claims that it was this dispute which led to Mr Ouko's suspension as a minister by President

Moi. Mr Mbajah also claims that Mr Hezekiah Oyugi, former permanent secretary in the Office of the President in charge of internal security, asked him to cover up his brother's murder. He says Mr Oyugi offered him money and a seat in parliament. When he refused to co-operate, he alleges he was arrested, "stripped naked and thoroughly beaten".

Perhaps the most damaging evidence was disclosed last week when the inquiry heard the testimony of a retired British police superintendent, Mr John Troon, formerly of Scotland Yard. At the request of the Kenyan government, London detectives last year carried out a 110-day investigation into the murder. Their report, which government originally promised to publish, has so far not been released.

Mr Troon told the court that government officials, led by Mr Oyugi, had stopped the Scotland Yard team from making public their belief that the case was homicide and that he tried to disguise the death as suicide.

The inquiry, now in its 23rd day and closely followed by the local media, has not only confirmed the view of many Kenyans that corruption is widespread. The allegations have also alarmed international donors, which provided about \$900m of aid last year.

Denmark's foreign minister, Mr Uffe Ellemann-Jensen, last month ended Danish economic assistance to Kenya after a report by the Danish Audit Department said that a "large part" of the DKK215m (\$18m) spent over the past 17 years on rural development in Kenya had "disappeared because of corruption and into impossible projects".

The Danish move reflected mounting concern among western donors, particularly the US, Britain, Germany, Sweden and Norway, that corruption had become the greatest single obstacle to better economic performance. The International Monetary Fund recently estimated that Kenyans were holding \$2.62bn in overseas bank accounts, excluding numbered Swiss accounts, at least part of which is thought to stem from dishonest deals.

A critical test of international reaction to the Kisumu revelations is expected at a meeting of leading donors in Paris on the 26th of this month. Several western governments and agencies are likely to press the case for democratisation as a vital prerequisite of economic management and accountability.

Strong criticism will also be voiced, say diplomats in Nairobi, about specific economic issues, including the government's poor performance on

privatisation, and the failure to reduce the budget deficit which increased last year from 4.2 to 5.3 per cent of GDP, compared to a target of 3.8 per cent.

On the home front, a potentially explosive test comes this weekend. The pro-democracy opposition group, the Forum for the Restoration of Democracy (FORD) plans to hold a mass political rally. A similar rally last year erupted into three days of violent rioting in which, officially, 22 people were killed.

The Ouko inquiry is devastating. It has shattered what little credibility President Moi had left," says Mr Paul Muta, chairman of the Kenya Law Society and a leading government opponent. "It has shown once and for all, in public, that here is a corrupt government with no legitimacy which is prepared to commit all manner of crimes."

President Moi, however, is attempting to defuse the Kisumu time bomb. In a speech last month he attacked corruption and pledged his government would strengthen legislation to combat this "scourge". This was followed by a sweeping reshuffle of the government which affected the most powerful members of the government, including Mr Biwott, who was moved from energy to industry and Mr Oyugi, who lost his job.



Charles Twining arrives in Phnom Penh yesterday

US sends envoy to Cambodia after 16 years

By Victor Mallet in Phnom Penh

THE first permanent US representative to Cambodia since 1975 arrived in the capital, Phnom Penh, yesterday, another sign of the accelerating renewal of ties between Indochina and the outside world.

Mr Charles Twining, US chargé d'affaires, expressed the hope that the peace accord signed in Paris last month by Cambodia's four rival factions would prevent further bloodshed.

"We believe the comprehensive settlement agreement offers the most realistic way to bring peace to Cambodia," he said. "To give the Cambodian people the chance to choose their own government and build safeguards against a return to the violence of the past."

Mr David Burns, the British envoy, also arrived yesterday, saying that Cambodia faced a difficult period. "The goodwill is there," he said. "I'm not going to say whether it's going to work quickly or slowly."

As United Nations troops prepare for their biggest-ever peacekeeping mission, residents of Phnom Penh are waiting expectantly for the return of Prince Norodom Sihanouk, the "god-king" deposed and replaced by the US-backed regime of Lon Nol in 1970. The extreme-left Khmer Rouge guerrillas won control of Cam-

S African factional violence leaves 52 gold miners dead

By Patti Waldmeir in Johannesburg

AT least 52 miners were killed in fighting over the weekend at an Anglo American Corporation gold mine near the South African town of Welkom, in one of the worst outbreaks of violence between black factions this year.

The causes of the fighting, which has left about 70 miners dead in the past week, appear to be both tribal and political. Violence broke out on November 3, when pro-union Xhosa workers clashed with anti-union Sotho-speaking miners on the eve of a two-day general strike supported by the black miners union, the National Union of Mineworkers (NUM).

It is understood that the Basuto miners, who are migrants from Lesotho and are less politicised than their Xhosa colleagues, tried to report for work despite the strike. Clashes ensued, and

revenge battles broke out again last weekend. At least 180 workers have been wounded in fighting between men wielding axes, spears and clubs.

The violence at the President Steyn mine near Welkom, in the Orange Free State, is to be investigated by the government's newly-appointed standing commission on violence, headed by a leading South African judge, Mr R.J. Goldstone.

Anglo American, the owners of the mine, yesterday refused to comment on the causes of the fighting, while the NUM said that the presence of non-mine employees among the dead raises suspicions that a so-called "Third Force" had been involved. Right wing supporters, acting within or outside the police, have often been accused of involvement in the

violence which has left some 3,000 blacks dead in the past 15 months.

It is the worst sustained conflict since the government, the African National Congress (ANC) and the Zulu-based Inkatha Freedom Party – main adversaries in township violence – signed a national peace accord two months ago. There is no sign of Inkatha involvement in the current mine violence.

South Africa's mine hostels, where workers were traditionally segregated by tribe, have continued to suffer tribal violence despite the integration of many hostels in recent years. The battles at the President Steyn mine, which witnesses said took place mainly near the hostels, were the only serious eruptions of violence during the general strike, the biggest in South African history.

Saudis write off Moroccan debt

SAUDI ARABIA has written off \$2.5bn (\$1.58bn) worth of Morocco's foreign debt, writes Francis Giles.

The country's foreign debt stood at \$21.3bn at the end of last year.

The move is a gesture of thanks for the support King Hassan gave Saudi Arabia in the conflict with Iraq earlier this year, which included sending 1,700 troops to the Gulf. It comes on top of the \$1bn Saudi Arabia and other Gulf states gave Morocco last autumn. King Hassan's debt to Saudi Arabia includes aid extended after Morocco occupied Western Sahara in 1975.

Jordan reshuffle

Jordanian Prime Minister Tahir al-Masri plans cabinet changes within two weeks in an attempt to secure a majority in parliament, where he faces opposition to Middle East peace talks and economic austerity measures, Reuter reports from Amman.

Gulf states not keen on Arab deployment

By Tony Walker in Cairo

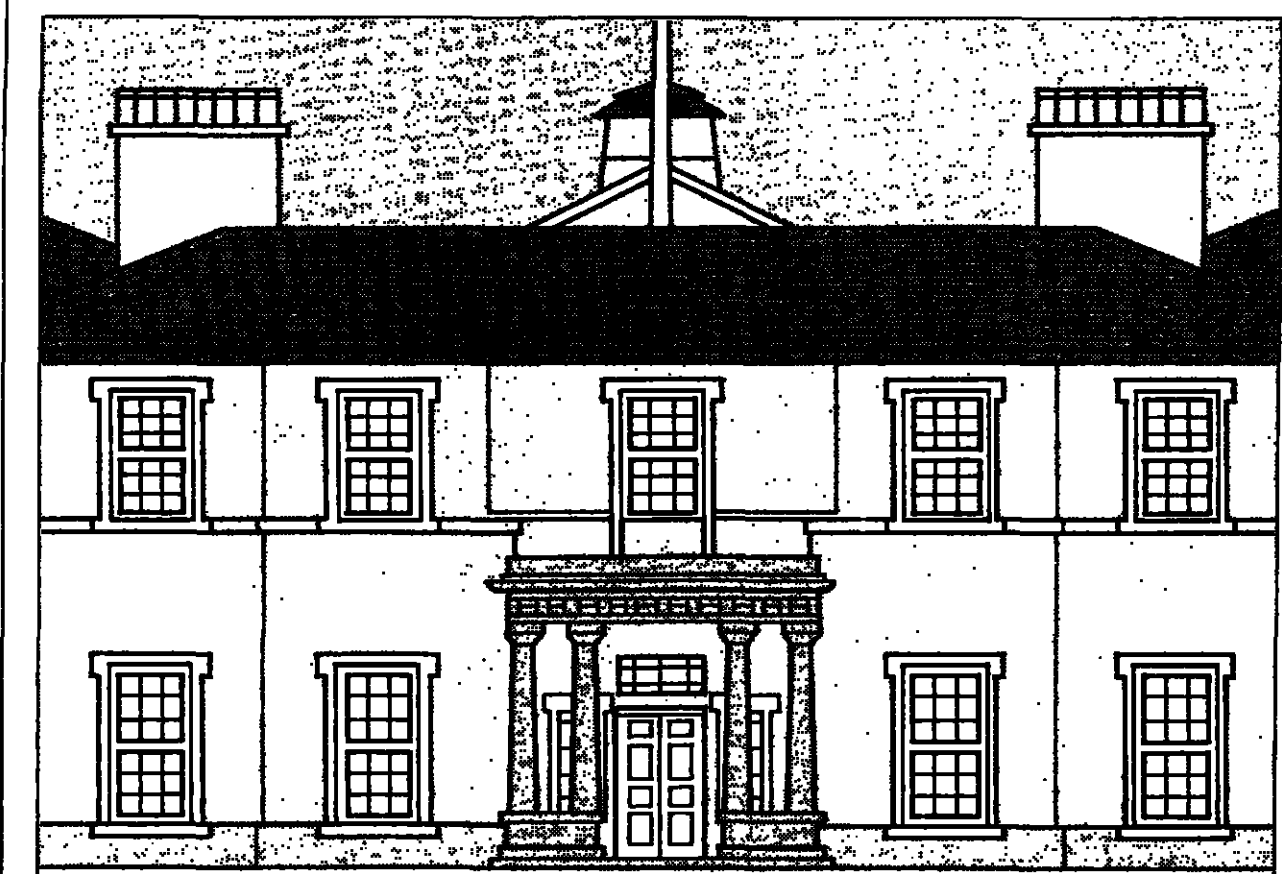
EGYPTIAN and Syrian hopes of renting military detachments to the Gulf states for their security yesterday appeared to have suffered a further setback with Gulf leaders rejecting a meeting in Cairo expressing a lack of enthusiasm for the idea.

Representatives of the six states of the Gulf Co-operation Council plus Egypt and Syria are now considering the establishment of an Arab rapid deployment force to deal with emergencies. This plan is considerably scaled down from one which emerged in the immediate aftermath of the Gulf crisis.

Then the anti-Iraq alliance – known by diplomats as the "six plus two" – meeting in Damascus on March 6 resolved to form an Arab peacekeeping force in the Gulf based on the deployment of Egyptian and Syrian contingents in the region.

Kuwait reached a 10-year security agreement with the US in September and the Gulf states would prefer to remain under the American defence umbrella.

Another issue likely to be discussed by "Damascus Declaration" countries in Cairo this week is Qatar's plan to secure water from Iran by way of an 1,800 km pipeline. Gulf states are likely to be sceptical of this proposal, as it would strengthen Iran's position in the region.



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FT 12/11

US union hitch ends steel venture plans

By Our Foreign Staff

BETHLEHEM Steel said last night that it and British Steel had agreed to end talks about a proposed joint venture in the US.

The US company said discussions over the proposed structural steel venture had broken down because the two companies had not been able to reach a mutually satisfactory labour agreement with the United Steelworkers (USW) union.

The venture would have involved restructuring and modernising Bethlehem's

structural steel and rail production plants in Pennsylvania and both companies had repeatedly said that agreement with the US union was crucial to its success. British Steel had made it clear that the venture would involve around 2,000 job cuts at the plants.

British Steel said last night that while the project had proved technically feasible it was always dependent on a satisfactory labour agreement. Both companies had always maintained that the venture

should only proceed if they were satisfied it could be internationally cost-competitive.

Mr Walter Williams, Bethlehem Steel's chairman, said he was disappointed a labour agreement could not be reached and the company would now consider strategic alternatives for structural and rail products.

The company said that, as previously announced, existing iron and steelmaking operations at the Bethlehem plant, involving the blast fur-

naces, basic oxygen furnaces and related facilities, would be discontinued over the next few years.

Earlier yesterday, at a London press conference held by British Steel, the privatised steelmaker, to announce first-half results, the company was critical of the attitude of the USW.

Tentative proposals for the venture were announced earlier this year and a deal would have given British Steel a large US market presence.

The proposals had already been radically revised, with the companies abandoning plans to consolidate Bethlehem's two structural steel plants into one. This was seen as a concession to the unions.

Failure to agree on the venture is a serious blow to British Steel but the company has not formally changed its position that its growth prospects depend on building its presence in developed markets, and especially Germany and North America.

Argentina adopts new sell-off strategy

By John Barham in Buenos Aires

ARGENTINA yesterday announced a new privatisation strategy aimed at raising \$3.5bn (£2bn) in cash by the end of next year through the sale of controlling shares in all state companies to private operating companies.

Officials say the government intends to sell more than half of each company's voting capital to operators this year. It would float its remaining shares on local and international capital markets at a later date.

This will enable Mr Domingo Cavallo, economy minister, to meet President Carlos Menem's demand that all state companies be either privatised or wound up by the end of 1992, while enabling the government to realise better prices for its equity by not flooding the market with new stock.

Companies up for sale include the railway network, the three federally-owned electricity companies, a water company, the government's gas monopoly and YPF, the national oil group.

Work on selling these assets began in February, when Mr Cavallo took office. The companies are to be broken up and sold as individual units which will operate under near-market conditions with the supervision of a federal regulator.

However, analysts warned yesterday that Mr Cavallo's ambitious programme faces numerous obstacles. Not only is privatisation a complex and time-consuming process, analysts doubt all companies will find ready buyers.

They add that by establishing a deadline the government has damaged its bargaining position.

Mr Cavallo said the government would spend about \$1bn of its privatisation receipts in severance payments and other benefits to the approximately 70,000 employees who will lose their jobs.

The Defence Ministry is also wading into the market with steel, chemical and manufacturing holdings valued at \$5bn.

Mexico slows peso devaluation and extends wage accord

By Jeanne Grant in Mexico City

MEXICO has halved the rate of daily devaluation of the peso against the US dollar from 30 centavos to 15 centavos but stopped short of fixing the parity, as expected by many observers.

The move was one of several measures linked to the extension at the weekend of a wage and price control accord with representatives of business, labour and the farming sector, which also included steep increases in energy prices.

The steepest rise is for leaded petrol which has shot up almost 55 per cent, compared with a 25 per cent rise for unleaded petrol.

The differential increase is aimed at encouraging use of unleaded petrol, although unleaded petrol remains more expensive than leaded. Domestic electricity prices were increased 15 per cent.

Other measures included:

● Exchange controls, gradually liberalised over the past decade, were abolished.

● Value added tax was reduced from 15 to 10 per cent, while food and medicines continue to be exempt.

● The daily minimum wage was increased by 12 per cent.

The previous rate of nominal devaluation - equivalent to about 5 per cent a year - already involves a real appreciation of the peso against the dollar, given Mexico's annual rate of inflation of around 16 per cent or just over. Industrialists have argued that steeper real appreciation of the peso would make their goods uncompetitive in their biggest foreign market - the US.

Some labour leaders are said to be disappointed with the minimum wage increment but this will have to be ratified in the new year. The accord, known as the Pact for Economic Stabilisation and Growth, or El Pacto, has been extended until the end of January 1993 - the sixth extension since its inception in December 1988.

Chile moves towards greater democracy

By Leslie Crawford in Santiago

PRESIDENT Patricio Aylwin of Chile has embarked on constitutional reforms to remove vestiges of the authoritarian system inherited from the 1973-90 military regime.

The first of these reforms, approved by a joint session of congress at the weekend, reintroduces direct elections for municipal councils and mayors. Local officials were appointed by General Augusto Pinochet during his 16-year dictatorship.

The first local elections since 1971 are expected before June next year. Political parties have already embarked on a race to find thousands of candidates. The voting will be seen as a dry run for the congressional and presidential elections in December 1993.

Mr Aylwin will present other constitutional amendments at the start of the new parliamentary year next March. The

most controversial would restore the president's power to remove the commanders-in-chief of the armed forces. Under Chile's 1980 constitution, the civilian president can neither appoint nor remove military chiefs.

Gen Pinochet has the right to veto as head of the army until 1997. He is the only military commander of the 1973 coup who remains in active service and the government regards the general's continuance in his post as the main obstacle to a full democratic transition.

Other amendments aim to reform the electoral system that over-represents the right-wing opposition, alter the composition of the constitutional tribunal and abolish appointed senators.

All these reforms are expected to encounter stiff opposition from the right.

'A free-market mole' at bay in the White House

George Graham on housing secretary Jack Kemp

OPPOSITION Democrats have been making hay with the US administration's apparent impotence to pull the economy out of its torpor. The criticism has gathered pace whenever President George Bush travels abroad.

But in recent weeks it has often seemed that the most vigorous critic of the Bush administration's economic policy, or lack of it, was sitting at the cabinet table in the person of Mr Jack Kemp, secretary for housing and urban development (HUD).

Mr Kemp made another attack on Sunday, renewing his appeal for a deal between the administration and Congress to couple a cut in capital gains tax with the extension of unemployment benefits sought by the Democrats. Mr Kemp sees the capital gains tax cut as essential oxygen for the economy.

This, and a mixed bag of other incentives such as tax credits for low income housing and boosts to personal pension plans, would "get this bone out of the throat of our body economic and create more jobs," Mr Kemp said.

The debate between Mr Kemp, a supply-side politician who many see as the true heir of the Reagan era, and moderate technocrats such as Mr Richard Darman, budget director, and Mr Nicholas Brady, Treasury secretary, has been an extraordinarily public display of the Bush administra-

tion's ideological rift.

"It's a friendly debate, it really is, but it's a vigorous one," Mr Kemp acknowledged.

Others in the administration take a less rosy view of the conflict. They believe that Mr Kemp is playing into the hands of the Democrats by almost directly contradicting President Bush, who said on Friday that the economy was not in recession and who has warned of the consequences any tax cut would have for long-term interest rates.

Democrats have been swift to take advantage of the lack of harmony. "This is the most unfocused White House that I've seen in a long time, and when you see a good Republican like Jack Kemp making that point, that is an indication that there is real alarm within the Republican party about 1992," crowed Mr James Carville, a political strategist. Mr Carville has become the darling of the Democrats since the upset election victory in the Pennsylvania Senate race he helped engineer last week for Mr Harris Wofford against a former Bush cabinet member, Mr Richard Thornburgh.

It is not the first time that Mr Kemp has clashed with Mr Darman and Mr Brady, whose cautious and compromising attitudes have led Mr Bush into decisions - such as last year's acceptance of tax increases - that ran right against the grain of more ideological Republicans.

"The thing to understand about Jack Kemp is that he believes," noted Mr William Raspberry, a Washington newspaper columnist.

Mr Kemp, a former quarterback for the Buffalo Bills professional football team, with 18 years as a congressman for New York State, describes himself sometimes as a "bleeding heart conservative" and sometimes as a "free-market mole" inside the administration. He ran for the Republican presidential nomination in the last race until pulling out in March 1988.

He has put both aspects to use at HUD, pressing for an ambitious programme to privatise public-sector housing but doing so with a real belief that these policies can make a difference to poor people.

Even Mr Kemp's fiercest critics acknowledge the job he has done in clearing up the housing mess.

But the goodwill he won for the clean-up is now largely exhausted and his efforts to expand free-market housing programmes are consistently blocked in Congress. Last week he suffered another rebuff, when Mr Bush signed his department's appropriations bill for the current year.

The \$23.8bn (£13.5bn) total is a record for HUD but Congress slashed Mr Kemp's cherished Home Ownership for People Everywhere (Hope) programme to help public housing tenants buy their homes, and ordered



Jack Kemp: clashes with Darman and Brady

him to spend 50 per cent more than he had wanted on building new public housing.

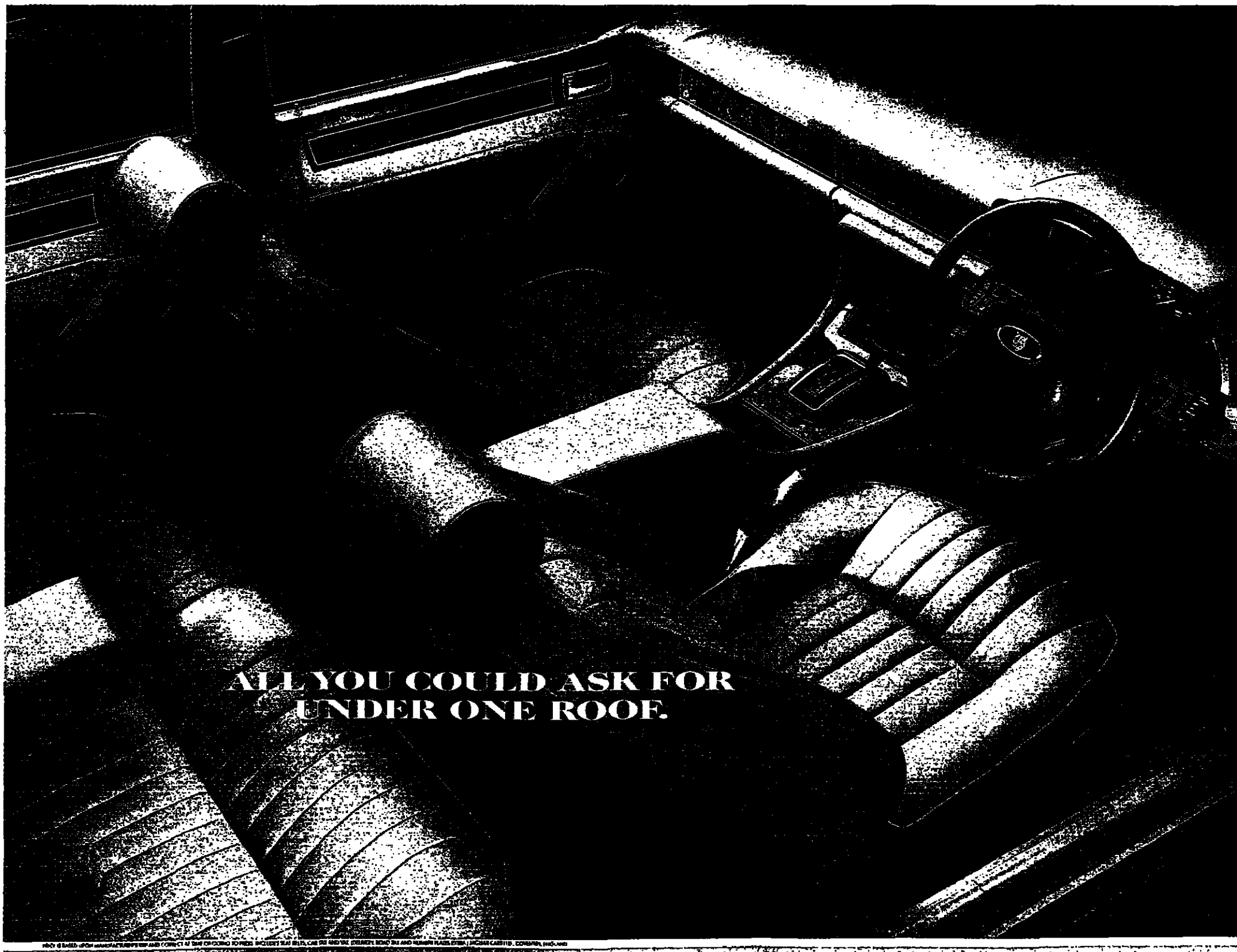
The changes so enraged Mr Kemp that he urged the president, without success, to veto the appropriations bill.

For more than a year now Mr Kemp has made little secret of his frustration at the narrow confines of HUD. He has complained that people do not listen to his views on economic policy as they would if he were secretary of the Treasury, and a few months ago he said he would like a new cabinet post

after next year's presidential election.

Last week the US Business and Industrial Council, a conservative business lobby, called on President Bush immediately to name Mr Kemp Treasury secretary to implement an aggressive economic growth policy.

But unless Mr Kemp has more success than he has had to date in winning the president round to his way of thinking, he may have to pursue his beliefs outside the administration.



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UK NEWS

Thomson-CSF criticised over closure plans

By David Goodhart, Labour Editor

THE CHAIRMAN of one of Europe's leading works councils, aimed at improving employee-management relations, has complained that Thomson-CSF, the French electronics group, failed to consult the council before it announced last month it was closing its plant in Gosport, southern England.

Mr Bert Therion, the Belgian chairman of the employee side of the council, was only told of the closure at the same time as the 740 staff at Gosport in spite of a clause in the works council agreement which says the council should be informed "in advance of major structural or industrial changes" and have the opportunity to make alternative proposals.

Mr Therion has made a formal complaint to the company, but whatever the response the Thomson-CSF experience may dampen union enthusiasm for European works councils.

The Thomson-CSF council has often been held up as a model, along with those in the other French companies Bull and BSN, of a successfully functioning EC-wide forum, recognised by employers, for informing and consulting with

workers. The Thomson-CSF council has employee representatives from France, Germany, the UK, Italy and Spain.

The European Commission's draft directive on mandatory works councils envisages councils similar to the one at Thomson-CSF. The directive is likely to be blocked by the British veto but an increasing number of large companies are voluntarily introducing such Europe-wide forums.

According to evidence on works councils presented to the European Commission by the DGB, the German equivalent of Britain's Trades Union Congress, 197 out of the EC's top 1,000 companies already have some company-wide forum for informing and consulting with employees compared with only 44 in 1984/1985.

UNICE, the European employers body, has rejected mandatory works councils in favour of voluntary consultation methods.

It has agreed, however, that its procedures should be reviewed after a few years to see if they are achieving their aim of keeping workers well-informed.

Gap widens in public and private sector pay

By Diane Summers, Labour Staff

PAY INCREASES for top public sector posts have dropped seriously behind their private sector counterparts, while increases in earnings at the lower end in the public sector have outstripped equivalent private sector increases.

The findings are the first long-term comparisons between the sectors to be published. They have been compiled by Mr Chris Trinder, of the Public Finance Foundation, a division of the Chartered Institute of Public Finance and Accountancy.

Pay increases for non-manual women in the public sector have fallen the furthest behind, according to the figures. The group, which includes headteachers and senior nurses, has seen a shortfall of 23 per cent when compared with equivalent private sector increases. Civil service, local government, health and education deals often include larger percentage rises for the low paid, or flat rate elements, says Mr Trinder.

Average gross weekly earnings for public sector males was £313.50 in April compared with £320.60 in the private sector. Mr Newton said this was an

Docklands railway on privatisation track

By Richard Tomkins, Transport Correspondent

LONDON REGIONAL Transport (LRT) is to be stripped of its responsibility for the notoriously unreliable Docklands Light Railway in east London. Mr John Major, the prime minister, announced last night.

The railway is to be handed over to the London Docklands Development Corporation (LDDC), the government-sponsored body responsible for Docklands regeneration, as a first step towards privatisation. LRT reacted furiously to the decision. Mr Wilfrid Newton, LRT chairman, called it "entirely political" and said it was against the interests of transport in London and Docklands.

The railway's users, however, may greet the change of ownership as an opportunity to bring a fresh approach to the railway's evident problems.

The decision to take the railway away from LRT follows top-level lobbying by Olympia & York, the Canadian property group behind the huge Canary Wharf development in Docklands.

Olympia & York is believed to have attributed its difficulties in filling Canary Wharf, which it had planned to turn into London's third commercial centre, in large part to the embarrassingly poor performance of the DLR, at present the development's main transport link.



Switching to a new track: the Dockland Light Railway is to be handed over to the local development corporation

exaggeration. "We would claim it is a minor factor," he said. "The fact is that there is a lot of quality space lying empty in the City and the West End, and the price advantage of Docklands property has been substantially eroded."

However, so low are expectations of the railway that LRT, its owner and operator, has just introduced a bus service to "shadow" the railway routes. The railway was planned at

a time when the government's ambitions for Docklands were comparatively modest and was built on a shoestring budget of £77m.

The government later agreed to pump £3.5m into improvements to Docklands' transport links, including an £800m upgrade to the railway.

Mr Malcolm Rifkind, the transport secretary, said yesterday that the DLR was a key factor in the successful regeneration of Docklands, and it made sense for the LDDC to make sure that the DLR made its fullest possible contribution.

BRITAIN IN BRIEF



Army cuts timetable to be delayed

The most hotly contested changes in the army will not take place until 1993 or 1994, the government has said. Plans for reducing the number of Scottish infantry battalions from nine to six and for merging the two other regiments have provoked particularly fierce opposition. The timetable announced by Mr Archie Hamilton, armed forces minister, puts these measures well down the list.

Under plans for cutting army strength by 40,000 to 116,000, the infantry is due to go down from 55 to 38 battalions and the Royal Armoured Corps from 19 regiments to 11.

Estate agents' complaints rise

Complaints against estate agents are flowing into the Estate Agencies Ombudsman's office at the rate of nearly 20 a week. Mr David Quayle, the Ombudsman for Corporate Estate Agents, has said. Mr Quayle, who was making his first annual report since the scheme was established, said that he had received 1,206 complaints in the first twelve months of the scheme. Most stemmed from communications breakdowns and misunderstandings between estate agents and their clients, especially from first time buyers.

Scottish freight terminal plan

British Rail is to site its Scottish Channel tunnel freight terminal on an existing rail marshalling yard at Mossend, Lanarkshire, an area hit hard by steel closures in the past few years. This completes BR's network of nine out-of-London rail freight terminals for European freight. BR said the plan by its freight distribution arm and AMEC, the construction company, would develop a 600-acre site handling 400,000 tons of freight a year at a cost of £500m, creating up to 8,000 jobs over 10-15 years.

LSE members make profit

The UK's securities industry has bounced back in the first six months of this year from devastating losses during 1990, but still on average fell far short of hoped for returns. Members of the London Stock Exchange (LSE) made a combined pre-tax profit of £189m in the first six months, according to the latest Stock Exchange Quarterly. This followed aggregate losses of £208m in the previous six months, and losses for 1990 as a whole of £333m. The rebound in profits resulted from the sharp increase in share turnover this year as the Gulf War brought to an end a stalemate that had blighted stock market trading since the previous summer. Rising share prices also brought a new wave of rights issues.

Pressure to harmonise

The UK is coming under considerable pressure from the European Commission to harmonise standards in consumer protection, though it would be a "mistake to transfer more power to the centre than is necessary," Sir Timothy Bason, chairman of the Advertising Standards Authority, has said. Sir Timothy drew attention to the imminent flood of trade in goods and services in the run-up to the European Community's single market by the end of 1992.

Wider powers urged for CRE

The Commission for Racial Equality should be given power to inspect the procedures of major UK employers to check for racial disadvantage, barristers and judges have been told. Ms Usher Prashar, former director of the National Council for Voluntary Organisations, said the 1976 Race Relations Act had not attained its objective. Legislation was needed which was primarily aimed at improving the position of black and ethnic minority communities.

Lloyds in Switch move

Lloyds argued that Visa was far superior to Switch, an electronic-only debit card service set up in 1989. Lloyds Bank has approached the Switch debit card consortium for preliminary discussions about becoming a member, though it has not made a formal application. This marks a policy shift by Lloyds, which was one of the earliest entrants into the UK debit card market with its Visa debit card.

MP challenges inquiry decision

Mr Winston Churchill, Conservative MP for Davyhulme in Greater Manchester, is to challenge Mr Michael Heseltine, environment secretary, over an inquiry into the widening of a motorway bridge. Mr Heseltine has ordered a public inquiry to be re-opened because of reluctance by the Department of Transport to push through a compulsory purchase order to enable the bridge to be widened to allow Manchester Ship Canal to build a £200m shopping and leisure centre. Mr Churchill attacked both the transport and environment departments: "It is not the job of government to obstruct development and the creation of thousands of jobs with such preposterous bureaucracy".

Jacques who?

Britons are largely ignorant of the leading personalities and workings of the EC but see long term advantages of UK membership, according to a survey. Almost three-quarters of the 500 adults interviewed were unable to name a single European Commissioner. Even Mr Jacques Delors, commission president, was recalled by only 13 per cent. However, 43 per cent thought EC membership would make life better for their families over the next 10 years compared with 13 per cent who expected a deterioration. Even more expected an improvement over 15 years. Only seven per cent correctly identified the Netherlands as currently holding the EC presidency.

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UK NEWS

CONSUMER CREDIT

Government hopes for upturn dealt fresh blow

By Peter Marsh, Economics Staff

WEAK levels of consumer borrowing, shown up in official figures published yesterday, have dealt a blow to government hopes of a sustained economic upturn next year.

According to the Central Statistical Office (CSO), consumers made a net repayment of £107m in September on credit agreements with building societies and finance houses, and on bank credit that is part of the Visa or Mastercard systems.

While this is the highest monthly net repayment for this type of credit on record, separate figures on overdrafts and other personal bank loans also underline the reluctance of consumers to take on new debts.

The seasonally-adjusted statistics do little to support government theories that a strong rise in consumer spending next year, helped by an increase in borrowing, will lift Britain from recession.

Although the evidence is largely anecdotal, consumer demand for increased borrowing appears to have been depressed by rising unemployment and high existing debts.

Several private sector economists said the new data raised a question mark over last week's Treasury forecast that consumer spending, which accounts for some two thirds of

The Treasury has cut back its forecast for economic growth next year to convince the City and opposition politicians that it is not trying to "talk up" an expected recovery. At the same time it has stuck to relatively bullish projections covering consumer spending, exports and manufacturing output. The exercise in compromise enabled the Treasury to present a broadly credible view of the future to financial markets, while enabling ministers to point to a relatively fast upturn in specific parts of the economy.

gross domestic product, will rise by 2.5 per cent in 1992.

The Treasury expects the figure to drop 0.75 per cent this year.

Mr John Shepherd, an economist at S.G. Warburg Securities, said the Treasury's projection was a "weak spot", while Mr Michael Saunders of Salomon Brothers said the overborrowing in recent years "has given the economy a hangover".

The CSO's data indicated two successive months - August and September - of a net repayment on its so-called "narrow measure" of outstanding credit. These two months, in which consumers have

appeared particularly anxious to pay off credit card debt, are two of only four since monthly narrow-measure records began in 1986 that have shown a net repayment.

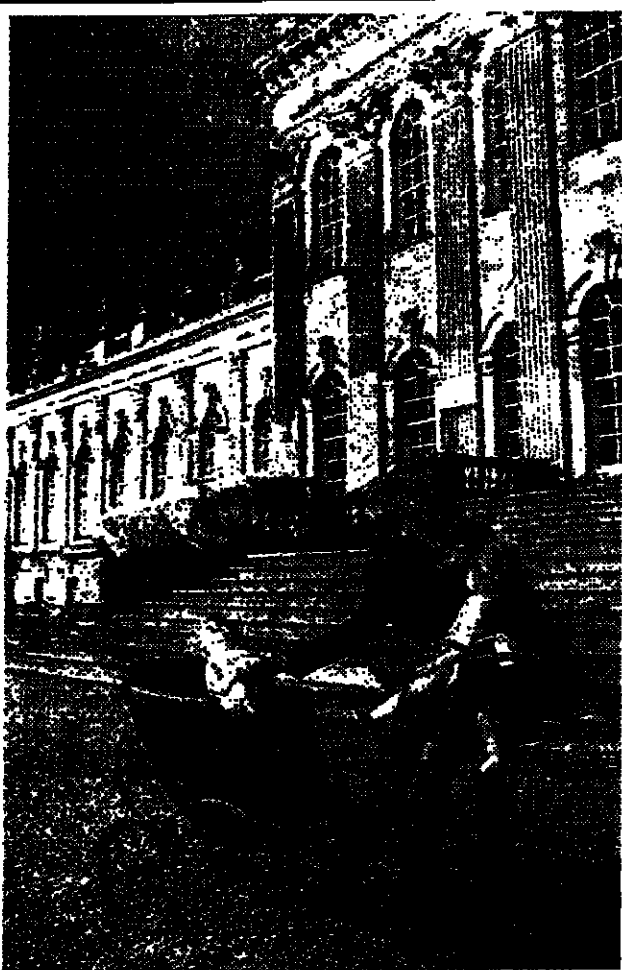
In the third quarter of 1991, net extra credit taken on was £54m, the lowest quarterly figure since 1980. In 1990, in contrast, consumers took on an average of about £250m of extra narrow-measure credit a month.

Other CSO figures showed that in the third quarter people repaid £23m on personal bank loans, after a £183m repayment in the second quarter. In September, total new narrow-measure credit agreed to by consumers was £2,90m, about the same as in August.

Commenting on the statistics, the Treasury pointed to surveys of consumers and industrialists which indicated a rise in business confidence, putting Britain on a recovery path.

It also highlighted revised CSO figures for retail sales volumes in September, which showed a 0.3 per cent increase on August - compared with a previous estimate of no change. Volumes in the third quarter of 1991 are now reported to be 0.7 per cent higher than in the previous three months.

Editorial Comment, Page 22



Annette Howard, a member of the family which owns Castle Howard - the north of England mansion used as the location for the television adaptation of *Brideshead Revisited*, examines a Victorian gram which went on sale yesterday along with a collection of family artefacts. The first session of the sale, held to raise money to maintain works of art on view at the house, raised just over £1m.

Invesco fined by investment regulator

By Norma Cohen, Investments Correspondent

INVECO MIM, one of the world's largest fund management firms, has been fined by UK regulators for failing to accurately keep track of client funds which led to a £2.7m shortfall in client accounts.

The Investment Management Regulatory Organisation (IMRO), the self-regulatory body for the fund management industry, said that Invesco MIM had been fined £75,000 and ordered to pay the costs of the investigation, believed to be another £50,000 to £60,000. IMRO's investigation found administrative and bookkeeping problems which affected roughly £250m in client's FEP accounts, equal to two-thirds of all such accounts managed by the company.

A spokesman for Invesco said there was no suggestion that client funds had been mis-handled: it was the unexpected demand for Invesco FEPs in 1989 which swamped the accounting system.

Invesco used far more client money to purchase stock than it should have, leaving client accounts short of cash. Invesco has replaced the £2.7m from its own funds and will recoup it when the unwanted shares are sold. The spokesman said that the regulators had asked the company to appoint a leading City accounting firm to review all customer accounts, a process that is still continuing. Current review focuses on FEP client money and customer assets accounts reconciliation since November 1990.

IMRO said that Invesco MIM had submitted a deliberately misleading "statement of representation" for the first six months of 1989 which assured regulators that administrative rules were being complied with. In fact, Invesco failed to keep adequate records of transactions with its FEP customers, did not properly reconcile client money and customer assets and did not maintain adequate accounting controls.

IMRO said Invesco has "made considerable progress in resolving the problems" but said it is continuing to monitor the company's accounts.

Steep decline in truck sales shows signs of recovery

By Kevin Done, Motor Industry Correspondent

SALES of new commercial vehicle fell heavily in October, but there are indications that the steep decline in the truck market, hitherto the sector hardest hit by recession, has begun to moderate.

UK new commercial vehicle sales in October fell by 27.7 per cent to 14,585 from 20,322 in the corresponding period a year ago according to figures released by the Society of Motor Manufacturers and Traders. Overall new commercial vehicle registrations, a significant barometer of economic activity, show little slackening in the grip of recession.

October was the 25th month in succession that commercial vehicle sales have shown a monthly year-on-year decline.

Truck makers remain very cautious about the sector's prospects in the final two months of the year and in the first half of 1992, but after more than two years of sharply declining sales, there is a growing belief that the recession in truck demand has begun to bottom out.

Iveco, the UK truck market leader, said yesterday that it expected overall truck sales (above 3.5 tonnes) to total around 32,000 this year compared with 48,545 in 1990 and 69,294 in 1989.

It forecast the beginning of a

gradual recovery next year to a total truck market of 35,000-41,000, with great uncertainty remaining about prospects in the first six months of 1992.

In the first ten months new commercial vehicle sales at 163,919 were 29.4 per cent lower than in the corresponding period a year ago. Over the last two years new commercial vehicle sales have fallen by 43.6 per cent from 326,206 in the first ten months of 1989.

The rate of decline in truck sales did show signs of moderating in October, however. Sales of trucks (above 3.5 tonnes gross vehicle weight) fell by 4.9 per cent in October to 3,080 from 3,240 a year earlier, compared with a fall in the first ten months of the year of 35.3 per cent to 27,705.

Sales of heavy trucks (above 15 tonnes gross vehicle weight) in October were 9.1 per cent lower than a year ago, compared with a fall in the first ten months of 37.7 per cent.

In the last two years UK new truck sales have more than halved with a drop of 54.9 per cent from 61,391 in the first ten months of 1989. Truck makers have also suffered the sharpest fall into recession of the post-war period during that period. Sales have declined to levels not experienced since the 1960s.

Financial reforms could force cuts in school funds

By Andrew Adonis

CHANGES to the financing of state education in Britain could force councils to impose significant cuts on services for schools which do not opt out of local authority control, it emerged yesterday.

If the government alters its funding formula for opting out, in which schools take on their own finances - the attraction of the scheme will diminish, with cuts likely in the budgets of existing grant-maintained schools.

This stark alternative is spelt out in a report by Heston's director of education budget, calculated at 16 per cent of their budget share.

central support services such as libraries, administration and, special needs teaching.

So far, five of Hertfordshire's 88 secondary schools have opted out. The report estimates that under the current funding formula the entire support services budget for the county's secondary schools would be spent if only half opted out.

Opted-out schools receive a government grant equal to their previous local education authority (LEA) funding. They also receive a share of the authority's central education budget, calculated at 16 per cent of their budget share.

Tory critics launch attack on council tax

By Ivor Owen, Parliamentary Correspondent

BACKBENCH Tory critics of the council tax, due to replace the poll tax from April 1993, launched a barrage of protests when the two-day debate on the bill authorising its introduction started in the House of Commons last night.

To enthusiastic encouragement from the opposition benches they repeatedly interrupted Mr Michael Heseltine, environment secretary, to call for changes to benefit areas - such as London and south-east England - where property values are highest.

The new tax will be set according to property values and is designed to pay for local

services and amenities.

Critics of the Local Government Finance Bill, which will bring the tax into effect, were led yesterday by Sir Rhodes Boyson, a former local government minister. He complained that the lowest valuation band covering properties worth not more than £40,000 would apply to only 1 per cent of houses in greater London.

He urged Mr Heseltine to adopt proposals from the Conservative-controlled London Boroughs Association as the basis for new valuation bands for the capital.

An eloquent response from Mr Heseltine, emphasising the

"credit" due to Sir Rhodes for the way the legislation had been framed, failed to stem the flow of interruptions.

Other Tory MPs who suggested local government should be entirely financed through an increase in Value Added Tax joined in the exchanges.

They were unable to extract any hint of a concession from Mr Heseltine, who insisted that the introduction of regional bands for England was not necessary and would only give rise to anomalies.

Mr Patrick Cormack, a Tory MP who refused to support the poll tax, introduced by the

Thatcher government, received little encouragement from backbench colleagues when he pressed for a change in the proposed legislation.

He announced that he would seek to introduce an amendment during the committee stage to ease the position of widows and others who had occupied the same property for many years and seen its value rise out of proportion to their growth in incomes.

Mr Heseltine was clearly more comfortable when lashing out at the opposition benches. He won repeated cheers from supporters as he accused Labour of having been

unable to devise an effective policy for financing local government.

He alleged that, in the event of a Labour victory at the general election, its "jigsaw" of proposals might well result in the life of the poll tax being prolonged until 1996 or 1997.

Mr Bryan Gould, Labour's environment spokesman, insisted that had the government agreed to co-operate in introducing Labour's "fair rates" proposals the poll tax could be ended by April.

He likened the council tax to "a roof tax crossed with a head tax" which would give the worst of all worlds.

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steep decline in truck sales shows signs of recovery

By Sarah Bond, Motor Industry Correspondent

After a year of commercial vehicle sales falling sharply in October, the motor industry is beginning to show signs of recovery. The industry's leading manufacturers, including Ford, Volkswagen, and Renault, have all reported a rise in sales for the month. This is seen as a positive sign for the industry, which has been struggling for some time. The recovery is attributed to a combination of factors, including a decline in new registrations and a rise in the number of vehicles being sold. The industry is expected to continue to grow in the coming months.

Financial reforms could force cuts in school funding

By Andrew & Jane

Financial reforms could force cuts in school funding. The government's plans to reduce the deficit by 1995-96 could mean that schools will have to face cuts in their budgets. This could have a significant impact on the quality of education. The government is expected to announce its plans for financial reforms in the coming weeks. Schools are already facing cuts in their budgets, and this could make the situation worse. The government is expected to announce its plans for financial reforms in the coming weeks. Schools are already facing cuts in their budgets, and this could make the situation worse.

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MOCE SSE MC

IBA IPBM IE

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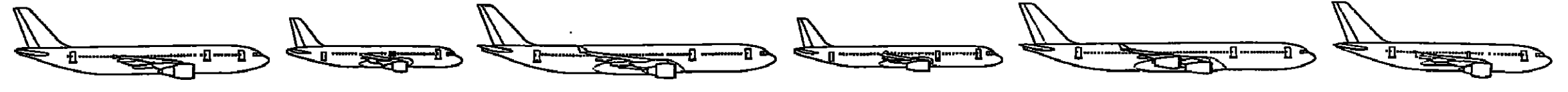
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AIRBUS INDUSTRIE

FT LAW REPORTS

Shipowners win duress claim

EVIA LUCK
House of Lords
(Lord Keith of Kinkel, Lord
Templeman, Lord Ackner,
Lord Goff of Chieveley and
Lord Lowry)
November 7 1991

SHIPOWNERS who make payments to a trade union under English law contracts induced by threats of blacking, can avoid the contracts and recover the money in that the threats, though lawful in the foreign country where made, constitute illegitimate economic pressure amounting to duress under the proper law of the contracts, namely English law.

The House of Lords so held when dismissing an appeal by the defendants, the International Transport Workers' Federation (ITF), from a majority Court of Appeal decision (FT, December 15 1989) that the plaintiff owners of Evia Luck, Dimskal Shipping Co SA, were entitled to restitution of monies paid by them to the ITF under duress, and to avoid the contracts under which the payments were made.

LORD GOFF said that in February and March 1983 Evia Luck lay at Uddevalla in Sweden. She was manned by a crew which included 20 Filipino nationals.

ITF agents boarded the vessel. They informed the master she would be "blackened" unless the owner entered into ITF employment contracts with the crew. They demanded back pay for the crew at ITF rates, and that the owners should sign a bank performance guarantee for \$200,000 and other documents.

As a result of the threat of blacking the owners agreed to sign the required documents. They incurred expenditure and losses totalling \$140,067.

The greater part of that sum consisted of \$103,463 backdated wages. In addition there were payments in respect of ITF entrance fees, ITF membership fees and ITF welfare fund contributions, bank charges for the guarantee, and loss incurred while the vessel was off-hire at Uddevalla.

The owners claimed declarations that they had lawfully avoided all the contracts on the ground of duress. They claimed restitution of pay-

ments made to the ITF, as having been paid under duress.

It was agreed between the parties that the payment agreement and the contractual documents were governed by English law as their proper law; and that the questions as to whether they had been avoided for duress, and whether the owners were entitled to restitution of monies paid, fell to be determined according to English law.

Mr Justice Phillips made no declaration in respect of the Filipino employment contracts. With regard to the English law contract he found that the pressure exerted on the owners at Uddevalla, was lawful under Swedish law.

It appeared to have been common ground that under English law it would amount to duress unless legitimised.

The issue related to the identity of the legal system by which the question whether such pressure had been legitimised had to be answered.

The owners submitted that it had to be answered by the proper law of the contract, namely English law, which at the relevant time did not legitimise such action.

The ITF submitted that the relevant system of law was Swedish law, as the law of the country where the pressure was exerted and where such pressure was lawful.

Mr Justice Phillips adopted the ITF's submission. He dismissed the owners' claim.

In the Court of Appeal the majority held that the question must be answered by reference to English law. It allowed the owners' appeal and made the order asked for, in respect of avoidance of the contracts and recovery of the money paid to the ITF.

The ITF now appealed.

The case concerned economic duress.

Economic pressure might be sufficient to amount to duress for the purpose of avoiding a contract, provided it was illegitimate.

The question was whether, in considering whether the pressure should be treated as legitimised, English courts should have regard to Swedish law.

Rule 184 *Dicey & Morris Conflict of Laws* 11th ed vol 2 stated that the essential validity of a contract was governed by its proper law.

Rule 184 was subject to two exceptions. The first was that a

contract was generally invalid in so far as performance was unlawful in place of performance. The second concerned the primacy of English law policy over any foreign law provision in so far as it might be relevant to validity of a contract.

By English law a contract induced by duress was voidable by the innocent party. One form of duress was illegitimate economic pressure, including the blacking or the threat of blacking of a ship.

There was no reason in principle why, *prima facie*, blacking should not constitute duress for that purpose, wherever it was committed. Its impact on the contract did not depend on the place where the contract occurred.

It followed *prima facie* that whether economic pressure amounted to duress sufficient to justify avoidance was a matter for the proper law of the contract, wherever that pressure had been exerted.

The question was whether there was any basis in law for rejecting that simple approach. Mr Burton for the ITF submitted that the court should, subject to overriding public policy, look to the law of the place of duress to test its lawfulness or legitimacy.

No authority supported that submission which, if correct, would require recognition and formulation of a fresh exception to Rule 184 in *Dicey and Morris*.

The ITF relied upon the analogy of tort. Conduct in a foreign country was only actionable as a tort in the UK if actionable in English law and by the law where it occurred. So, it was suggested, by parity of reasoning regard should be paid to Swedish law to decide whether ITF conduct constituted duress rendering an English contract voidable.

The analogy was not compelling. Conduct did not have to be tortious to constitute duress for the purpose of English law.

More fundamentally, however, there was a basic difference between the case of a foreign tort, and a case such as the present.

In the case of a foreign tort, not only had the conduct occurred outside English jurisdiction, but the only fact which brought in English law at all was that the defendant was amenable to the jurisdiction.

In the present case, there was another English connec-

tion of great importance. It was that the dispute related to a contract the proper law of which was English law, and the relevant incidents of which were therefore governed by English law.

A cogent reason had to be produced as to why in such a case the English courts should not apply English law in deciding whether the conduct constituted duress capable of rendering the contract voidable. The analogy of tort was not sufficiently apposite or compelling to achieve that result.

The judge was impressed by the argument that a man ought to be able safely to regulate his conduct by complying with the laws of the country in which he found himself.

That might be true so far as criminal law was concerned; but it did not apply to matters which might affect the validity of a contract governed by some other system.

If a person entered into such a contract, he had for most purposes to accept the regime of the proper law of the contract; and if under that regime a particular form of conduct constituted duress, or undue influence, rendering the contract voidable wherever the relevant conduct occurred, he had to accept the consequences of his conduct.

The appeal was dismissed.

LORD KEITH, Lord Ackner and Lord Lowry agreed.

LORD TEMPLEMAN dissenting said he would have allowed the appeal.

In the first place the English courts should not concern themselves with industrial action lawfully carried out in the place where that action occurred.

In the second place, as Lord Diplock pointed out in the *Universe Sentinel* [1983] 1 AC 366, there was no difference between tort and restitution.

Monies paid as a result of conduct lawful where committed and irrecoverable in the UK under the law of tort, should not be recoverable in the UK under the law of restitution. The contents of a bottle could not be changed by altering the label.

For the ITF: **Michael Burton QC** and **Paul Lousenstein** (Denton Hall Burton & Warrens). For the Shipowners: **Peter Leaver QC** and **Steven Gee** (Holman Fenwick & Willan).

Rachel Davies
Barrister

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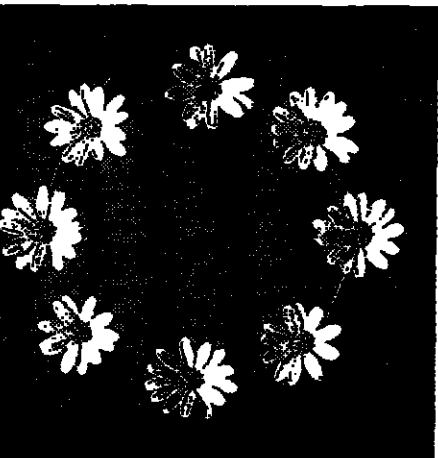
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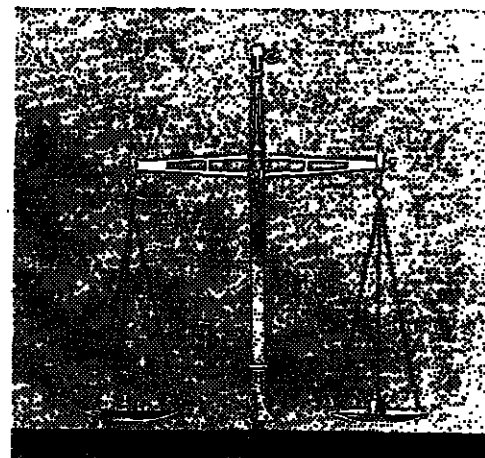


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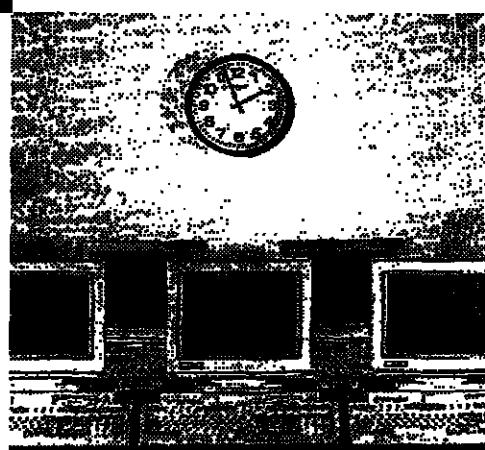
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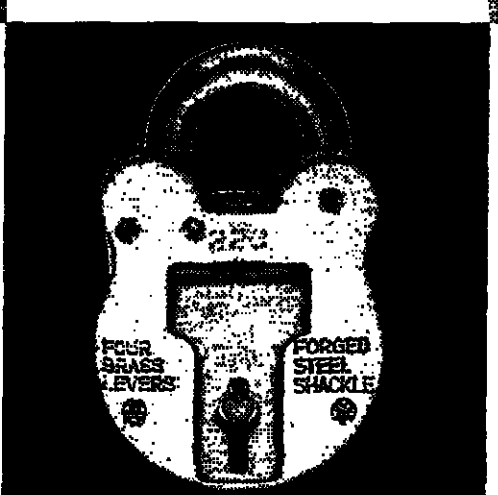
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1. The first part of the document is a list of names and titles, including "The Hon. Mr. Justice" and "The Hon. Mr. Justice".

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TECHNOLOGY

Aluminium cars, with their advantages of fuel economy, reduced emissions and recyclability, have increasingly become the next logical move in automobile technology. Now the Aluminium Company of America (Alcoa), the world's largest aluminium producer, and Audi, the luxury car subsidiary of Germany's Volkswagen, have taken a step in that direction.

Alcoa has unveiled its plan to build a first-of-its-kind plant in Soest, Germany, to produce aluminium spaceframes (the load-bearing part of the body shell) and components for Audi.

The plant, which will cost \$70m (\$40m), is expected to begin rolling out components by 1993. The car bodies would weigh at least 35 per cent less than traditional steel sheet bodies without reducing the size of the vehicle.

The lighter weight would help increase fuel efficiency, while added stiffness to the frame will enhance ride and handling. The car would also gain higher recycling value.

Although Alcoa and Audi are not the only companies working on aluminium technology for automobiles - others include Honda, Porsche, and Alcan of Canada - they claim to have a two- to five-year lead. This mainly consists of Alcoa's innovations in two areas: production line manufacturing processes and reduc-

Backing the lightweight

Barbara Durr describes why car makers are finding the qualities of aluminium difficult to resist

ing aluminium's brittleness. Part of the automobile industry's disinclination to use greater amounts of aluminium has been cost. The metal is more expensive than steel and suffers from substantial price volatility. Thus, Alcoa along with Audi, with which it has been working since 1983, strove to discover new techniques for making cars that would reduce a manufacturer's costs.

The solution is a spaceframe that is composed of fewer than 100 aluminium extrusions and castings and that can be robotically welded. This compares with the conventional car structure that requires spot welding of as many as 300 stamped steel components.

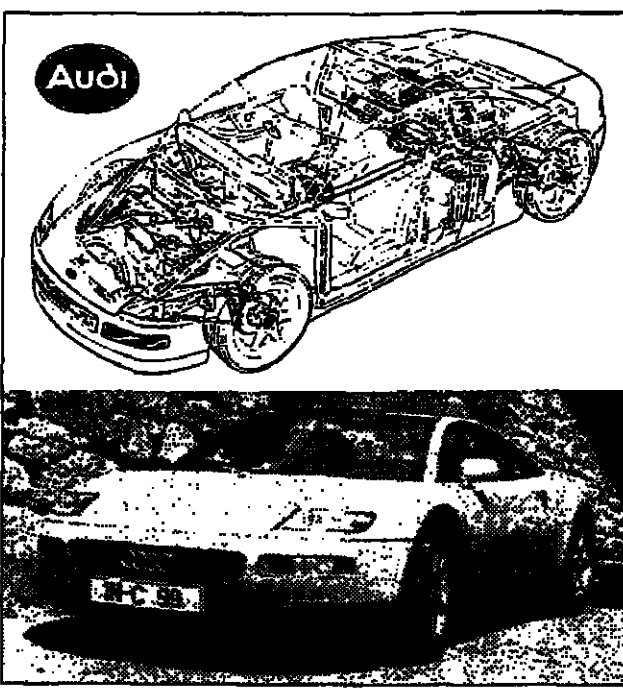
For car makers, the new technology offers several advantages. It reduces tooling expense by as much as 50 per cent, slashes back inventories of parts and speeds the design-

to-production time periods.

The process currently is economic only for runs of up to 100,000 cars, but Alcoa contends that as more is learned in the next few years, particularly when the plant is up and running, ways to achieve economies for larger runs may become clear.

New alloys and casting processes have also been developed to improve the metal's strength and toughness. When conventionally cast, aluminium has had a tendency to shatter when hit hard or dropped. Alcoa has discovered a process that improves the elongation from just 4 per cent, typical of conventional casting, to 20 per cent.

The new technology enhances aluminium's "crushability" - the ability to crumple evenly and predictably - and its shock absorption. "Aluminium has greater energy



The Quattro Spyder will be Audi's first aluminium model

absorption ability pound for pound than steel," said David Schlendorf, venture manager for Alcoa's aluminium intensive vehicle project.

The Soest plant, 96 km east of Dusseldorf, will employ 180. The technology will be for the exclusive use of Audi for the first few years, but will then be licensed to others by both companies, said Alcoa chairman Paul O'Neill.

ing but legislation on the recyclability of cars is being considered, interest in aluminium use seems higher than at Detroit's big three carmakers. Detroit's slowness to embrace aluminium stems from several factors. The big three are orientated to large production runs, and so far aluminium processes have not yet solved that problem in economic terms.

Detroit has also focused more on engine and transmission issues - such as fuel injection and more valves per cylinder, to obtain fuel economy and lower emissions - than on body structure. "Body technology is sort of a step-child," says Schlendorf.

Further, the notion of reducing a car's weight has for some time been tied in Detroit minds to reducing a car's size. This is viewed negatively in a market where consumers prefer larger cars.

But now that Alcoa appears to provide a solution to reducing car weight without reducing car size, Detroit may pay more attention. And it may be forced to take notice in any case.

Ten eastern US states have agreed to adopt the stringent emissions standards set by California for 1996 and more federal legislation on fuel economy may be on the way.

Moreover, Detroit may be prodded by the Japanese, who look set to move more quickly on aluminium use.

O'Neill feels certain that rising concern with the environment will push the auto industry towards greater use of aluminium. He says aluminium use has already increased from just 50 pounds per car in 1967 to 160 pounds last year. Others predict that aluminium use in cars will triple to about 500 pounds by 2000.

In Europe, where not only emission standards are tough-

er, but legislation on the recyclability of cars is being considered, interest in aluminium use seems higher than at Detroit's big three carmakers.

Steffens noted. Internal book-keeping can thus be done at the start and the completion of a transaction.

To what extent the service will be used is unclear until Telegiro has set its transmission charges and then established its place in the market. There is, however, an immediate and potential market among the 40m personal and business customers throughout Europe with giro accounts.

Girobank believes that Telegiro could be handling 6m transactions in 1993, the first full year of operation.

Many transmissions may be only the first stage of the Telegiro system. If it works, there is the possibility for Digital to change the software enabling giro to automate other mutual paper flows. The Telegiro interface computers can easily be upgraded.

With their activities based nationally, the giro are in the comfortable situation of offering complementary rather than competitive services.

do in Telegiro - we'll tell the customer what it costs to make the payment, how long it takes and any charges made on the beneficiary. Currently you don't get that - you know your own fee, but the timing is uncertain," said Butler.

Many transmissions will be made overnight, country to country, via the Vax 3110. Telegiro, explained Steffens, will transmit batches of transactions. "It will distinguish between what is urgent and what is not."

But message formats in Telegiro will be based on those used by Swift: they are the accepted international standard. The system organised by Digital will permit a sending giro to know the precise state of a transaction at any given time. "If Denmark sends a transaction to the UK, it will

ment Corporation.

The control centre of the system will be near Nice and its focal point will be a Digital Vax 3100 computer. Transmissions will be on the Infont international data network, but Telegiro will be a closed user group for security reasons.

Each of the giro has its own internal computer systems and they embrace a wide variety of makes - IBM, Nixdorf, Siemens and so on. What Digital has to do is to install at each giro a Telegiro interface computer and write the software to link the individual host computers with the Vax 3100. "The giro get a turnkey system within Infonet," said Michael Steffens, Digital's account manager for Telegiro.

Telegiro thus automates the middle stage of a three-stage money transmission journey. It replaces a mail transmission with an electronic transmission. What happens at the first stage, when the transaction to send money starts, and what happens at the third stage, when the recipient receives the money, depends on the internal systems of each giro.

In the case of Girobank in the UK, the advent of Telegiro marks a further step away from the manual processing of transactions. According to Girobank, a typical overseas money transmission today, using the post, can take seven days. A customer in the UK makes known his need to Girobank, the transfer is sent off by post to the destination country, processed at the local giro and sent on again by post.

The new system will take about 48 hours. "What we will

Money transmission in high gear

Paul Cheeseright on a payments system which links European giros

Fourteen national postal giro systems throughout Europe are combining to set up their own automated payments service, called Telegiro.

It will come on stream next May, following a try-out period linking the giros of Denmark, the Netherlands and Sweden, as three giros a month join the system.

Giros specialise in a high volume of transactions covering relatively small amounts of money. Given the closer integration of European business, there was the danger that if no organised system of payments transmission could be put in place, using the readily available technology, the giro would be engaged in an endless paper chase.

"We felt that if we wanted to increase pan-European payments, it meant more volume of paper and more staff. By automating we can bring in large volumes with marginal cost increases," said Noel Butler, head of the UK Girobank's international division.

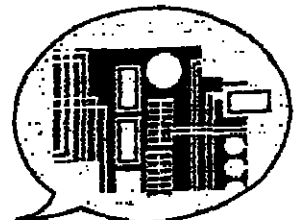
This points up the competitive element in Telegiro. The 14 giro systems are gearing up to attract money transmission business away from clearing banks which have, in the form of the Society for Worldwide Interbank Financial Telecommunications - Swift - their own transmission system. Telegiro is intended to do for the giro what Swift does for clearers. Not all giro are members of Swift.

Telegiro is the child of the informal European Post/Giro Directors Group, which was set up two and a half years ago to examine ways of working together. The approach has been to link the giros, rather than to unify them.

The technicalities of the new system, its installation and its management have been placed in the hands of Digital Equip-

Fair weather for everyone

By Clive Cookson



TECHNICALLY SPEAKING

AS A weather-mad schoolboy in the 1950s I had a moment of joy every month when a brown envelope arrived from the Meteorological Office, containing the forecast for the next 30 days. So I was heartbroken when the Met Office stopped publishing long-range forecasts in the early 1970s, after public complaints that they were not accurate enough.

What consoled me was the promise that the Met Office would continue research into long-range forecasting and resume publication when the accuracy had improved.

Research has made great progress since then. The 30-day forecasts in the 1960s were based on matching current weather patterns to years in the past when conditions were similar, on the grounds that meteorological history repeats itself. Today that technique is supplemented by the Met Office's supercomputer. Although the computer model cannot predict the weather on any particular day more than about two weeks ahead, it can show more general patterns a month into the future.

The Met Office is now selling monthly prospects to corporate customers in the energy, retailing and water industries. Companies are happy to pay several thousand pounds a year for predictions that sometimes go wrong but, taken over a long period, give considerably better results than chance.

Monthly forecasts will be launched next year as a fully commercial service. But the Met Office has no plans to make them available to the public or even to sell them cheaply to small businesses and farmers who could benefit.

The official reason for not publishing monthly forecasts, according to Bernard Herdan, Met Office commercial director, is that "we don't think they are sufficiently accurate yet to be used by members of the public, though they are used by professional customers who realise that they are considerably better than nothing".

As a member of the public, I find that attitude condescending. It is true that people need educating about the strengths and weaknesses of long-range forecasting, but surely public

education should be one of the Met Office's responsibilities. From conversations with Met Office staff, I gather that another reason for not publishing monthly forecasts is that this would reduce the revenues from selling them.

The Met Office, like other "executive agencies", is under strong pressure from the government to act more like a private business. Most of its new commercial services are welcome developments which meet the needs of many customers. A good example is the dial-up fax service, launched this week, which enables private pilots with a fax machine to receive the latest charts and forecasts, for a charge of up to 45p per minute.

But it is unfair for the Met Office to use public funds to develop a basic service and then price it out of the reach of individuals and small businesses. For example, corner shops would benefit as much as supermarket chains from monthly forecasts that would help them plan their ice cream stocks during the summer.

Professor Julian Hunt, who succeeds Sir John Houghton as chief executive at the end of the year, will have to make sure that the Met Office does not lose sight of its public service obligations in its enthusiasm for commercialisation.

Hunt's background as a Cambridge University physicist and former leader of the Labour group on Cambridge City Council suggests that his attitudes are not Thatcherite. He must ensure that the Met Office, the world's best weather service, passes its basic forecasts including monthly prospects to everyone who could benefit, from supermarkets to schoolchildren.

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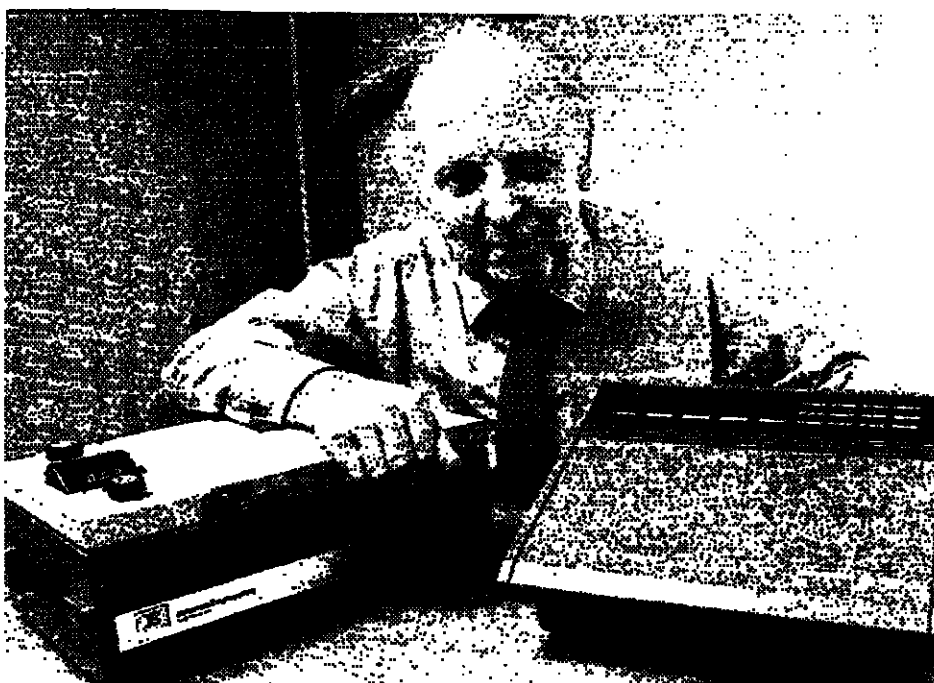
He'll tell you to go and jump in a lock.



MANAGEMENT: The Growing Business

The product's face is the company's fortune

Charles Batchelor explains how design can make all the difference between success and failure



Roger Edgar: design changes contributed to a 50 per cent rise in sales of the moisture meter

Sirius Analytical Instruments, a small East Sussex supplier of laboratory equipment, has spent the past two years developing the first product of its own. The Sirius team felt confident that its invention, which automates an otherwise laborious process for testing the suitability of compounds for use in new drugs - would do the job. But how would it put all the bits together into a workmanlike and attractive piece of equipment?

"As a scientist you would buy the bits and spread them out on your desk," says John Comer, technical director. "But it would look a bit of a rats' nest. We knew if we wanted to sell an instrument that it would have to look good on the laboratory bench."

With the help of the government's Enterprise Initiative, which meets half of the costs of consultancy in fields such as design and marketing, Sirius called in London-based Jones Design Consultants.

Sirius and the designers had to assemble the "rats' nest" of components into a piece of equipment which met four criteria. The components had to work together; they had to be fitted into as small a space as possible; the resulting "box" had to look good and it had to be easy to use. An early wooden model was four feet wide, too large for the average laboratory bench. By refining the design, it was reduced to just 18 inches. "It was like a puzzle," says Comer. "It is amazing that we managed to pack it all in."

Sirius' commitment to design is, unfortunately, still rare among UK manufacturers. "We do not make products which are attractive to world markets," says Colin Myrton, industry director at the Design Council. "Too many companies think design is something which applies to wallpaper. The associate it with men in bow ties."

Manufacturing companies, in particular, regard design as a question of aesthetics and do not realise its relevance to improving the performance of their products or reducing costs. "Mention productivity improvements and companies think of buying a new machine tool or reaching a new deal with their workforce, not of design," says Myrton.

A Design Council survey* of more than 200 manufacturing companies which undertook product, engineering or graphic design projects under the Enterprise Initiative showed that 48 per cent of the

projects which went ahead recovered their total costs, including tooling, within a year of market launch.

About 90 per cent of implemented projects made a profit with the average payback time being 15 months from product launch. Where comparisons were possible, sales increased by an average of 41 per cent, the survey showed.

The average cost of successful projects was £30,000 while those that failed - most commonly because the designer had not been adequately briefed - cost only £3,300 because most were halted before production started.

"To improve industry's understanding of design the Design Council runs regular seminars around the country. The Department of Trade and Industry is also keen to promote design as part of its Managing into the 90s initiative, which uses seminars and company visits to promote best practice. In addition, the British

Standards Institution introduced a standard for the management of product design, BS7000, two years ago.

Infrared Engineering, a Maldon, Essex-based manufacturer of industrial measuring instruments and control systems, was cautious about the use of design until it decided to revamp a piece of equipment used to measure the moisture content of paper and board. The original equipment had been practically unchanged for more than 15 years. It was difficult to build and to service; its appearance was dated; and some of the original components were becoming difficult to obtain.

"We were nervous about what we could do with it," says Roger Edgar, engineering director of the company, which has sales of £7.6m and a workforce of 120. "Our initial thought was to make minimal changes to bring it slightly up to date." With these limited objectives Infrared called in a design consultancy Design

Technology, through the Enterprise Initiative.

"They challenged every assumption we had made about the product. We assumed it needed a handle but they said it could be incorporated into the overall shape. They questioned our ideas on the position of the controls and the colour. They urged us to be more adventurous."

The resulting piece of equipment, the Moistrex MX5000, was easier to assemble and to test as well as being more reliable. The top surface of the casing was sloped to make the controls easier to use and the displays easier to read. Manufacturing costs fell 20-25 per cent while the weight was reduced from eight to 5½ kilos. Advances in microprocessor technology were incorporated into the new design and a bar code reader was also added. These design changes contributed to a 50 per cent increase in sales in a previously static market, says Edgar.

moisture meter, Infrared had used a freelance consultant for corporate image work and some product design. But it has since stepped up its commitment to design by retaining the services of Design Technology as well.

Nomix-Chipman, a Bristol-based manufacturer of herbicide sprays, recruited a senior designer from the consultancy which had helped it with design work. Nomix is now adding two design engineers to its payroll and installing a computer-aided design system.

Nomix currently has two sprays or applicators, one hand-held, the other involving a back-pack containing the herbicide, which are the products of an intensive design initiative. The spray design, using what is known as controlled droplet technology, has allowed Nomix to develop equipment which is both light and which avoids the need for the operator to mix potentially dangerous chemicals.

Nomix's method is to design its products "from the outside in," explains Eren Ali, now senior designer at Nomix. The sprays are designed to be comfortable to use and to look attractive - external appearance is important to convey the idea of durability and good performance - and the interior workings are then fitted in.

This is the reverse of the traditional British approach of tacking on design at the last minute to improve the looks of a product which has already been largely put together.

All believes that Nomix now has the right approach to design but the eight-year-old company, with £8m of sales and a workforce of 120 people, has undergone a rapid evolution of its design ideas. On one occasion Nomix had turned to an injection moulding company to design a spray. But, lacking sophisticated design skills, this company produced a spray which looked as though it was stamped from folded metal - all sharp corners and with none of the curves and styling possible with plastics.

The new, more professional approach means that, as well as a raft of design ideas, Nomix can now claim almost total dominance of its sector of the applicator market. "Profits by Design. Four pages. Free. The Design Council, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000.

A relative resilience despite the recession

By Charles Batchelor

Small businesses are not only an important source of new jobs - they are more likely to maintain employment levels during a downturn.

New light on the economic contribution of small businesses emerges from a survey* of job trends carried out by Newcastle University and the Employment Department.

The survey found that:

- Firms employing fewer than 10 people created more than 500,000 jobs between 1987-89, roughly half the total net growth in employment, in spite of the fact that, at the start of this period, they accounted for less than one fifth of the workforce.

● The net numbers of jobs created were proportionately greater among firms employing fewer than five people. However, job creation fell sharply in the 10-19 employee size. This may reflect the fact that this is a particularly difficult stage of development.

A breakdown of the job creation numbers emphasised the need to provide more support to established small businesses.

The figures showed that 1.8m new jobs were created in

1987-89 as a result of existing firms expanding while 800,000 resulted from start-ups. However 1m jobs were lost by firms closing down and 500,000 by firms contracting.

If these figures confirmed widely accepted assumptions about small businesses, some of the survey's other findings shed new light on their job creation potential.

The prevailing view of small firms has been that only a very small number create significant numbers of jobs. This has had important implications for small firms policy since it put a premium on "picking winners".

But this study showed that overall job growth was due to increases in employment numbers among a large number of firms and was not concentrated in a few cases of very rapid expansion.

Net job creation in firms which employed between one and four people in 1987 (and which survived to 1989) was 262,000.

More than half of these jobs were accounted for by the 48,000 firms which moved from the one-to-four to the five-to-nine size band while just 12,000 jobs, or less than 5 per cent, were created by the 600 or so firms which expanded beyond 20 people.

A second aspect of small firms to emerge from the survey was their relative resilience in the face of recession.

They benefit when large companies withdraw from marginal activities leaving open market niches or when they subcontract peripheral activities such as cleaning and catering. Meanwhile people made redundant by large companies may set up in business on their own.

The latest Employment Department study of VAT statistics, published at the same time as the jobs survey, showed that while insolvencies rose 50 per cent between 1989-90 the number of companies which dropped off the VAT register was unchanged at 11 per cent of VAT registrations. Most businesses which cease trading do not undergo formal insolvency proceedings so recent insolvency figures appear to have overstated failure rates.

In brief...

■ The tourist industry has grown rapidly in recent years and provides many openings for the smaller business. A series of four guides* from the English Tourist Board and Barclays Bank provides advice for the individual starting up. The titles are Starting a Bed and Breakfast Business, Starting a Caravan Business, Starting a Self-Catering Business and Funding a Tourism Business.

Location is an important consideration when starting up self-catering. While the new venture will want to avoid too much local competition it must beware of choosing a spot without an adequate range of nearby tourist facilities. And while visitors may value their privacy, they will not necessarily want their holiday cottage to be at the end of a narrow rutted lane.

Intriguingly the higher the occupancy figures, the guide points out, cottages, chalets, cabins and lodges achieve higher occupancy figures than bungalows, flats and houses.

*From the English Tourist Board, Department D, 24 Grosvenor Gardens, London SW1W 0ET. £10 each or £30 for all four.

■ Business is booming for the debt collectors. October was a record month in terms of the amounts of debt which Dun & Bradstreet, a large debt collecting and credit rating company, was asked to collect by businesses in England and Wales. Debts registered for collection were three times the level of October 1990.

■ Plans for a £20m development capital fund to make investments in unquoted companies in Portugal have been announced by Riggs A

P Bank, a London-based merchant bank.

The Anglo-Portuguese Fund expects its minimum investments size to be £500,000 and the average size £1.4m. It hopes to give investors an annual return of at least 30 per cent compound. The fund, a UK limited partnership, will be managed by Great Winchester Capital Fund Managers advised by SFR Gestao, a Portuguese development capital group.

■ Businesses looking for small commercial premises should find lower rents and a greater choice of properties over the next three months, according to a nationwide survey of property values by National Westminster Bank.

However many small firms are unable to move to cheaper accommodation because they cannot find another business to take over their existing lease, the survey showed.

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POLMO Praszka S.A. - Invitation to Negotiate

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Employees of Praszka will be offered up to 20% of the shares in the company on preferential terms, in accordance with the Privatisation Act.

Praszka, which is based in the town of Praszka, manufactures brake systems for trucks, trailers and tractors. The company also makes water and oil pumps, aluminium alloy castings and vehicle suspension springs.

Interested parties will be expected to have relevant experience in the motor vehicle components industry and to demonstrate their commitment to the continued development of Praszka's business.

A Descriptive Memorandum is available, subject to signature of a confidentiality agreement, and may be obtained from Barclays de Zoete Wedd Limited at the addresses given below.

Any offer made pursuant to this invitation must be received by Barclays de Zoete Wedd Limited by 5pm London time on 16 December 1991. The Minister of Privatisation reserves the right to extend the date of this invitation to negotiate beyond 16 December, but shall be under no obligation to consider offers received after that date. The Minister of Privatisation also reserves the right to revoke this invitation and not to enter into any negotiations, without giving any reason therefor. The Minister of Privatisation and Barclays de Zoete Wedd Limited further expressly reserve the right to proceed to negotiation of the purchase contract before that date, on the basis of a suitable offer submitted in response to this invitation.

All enquiries concerning this invitation to negotiate and any offers should be addressed to:

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Poland

Attention: George Storzynski (Tel + 22 276 416)

Bids may alternatively be lodged with:

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2 Swan Lane
London EC4R 3TS

Attention: David Clark (Tel + 71 956 3460)

Issued by Barclays de Zoete Wedd Limited, a member of SFA

Touche
RossT. J. Rose Limited
(In Administrative Receivership)

The Joint Administrative Receivers offer for sale as a going concern the business and assets of T. J. Rose Limited.

- Specialist pressworkers to many trades having their own skilled toolroom and diesinking departments.
- Freehold site in the Jewellery Quarter in Birmingham.
- Annual turnover in excess of £550,000.
- Skilled workforce of 20.

For further information please contact A.P. Peters or R.H. Brown at the address below.

Newwater House, 11 Newhall Street, Birmingham B3 3NY.
Tel: 021 631 2288. Fax: 021 236 1513.

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

DRT International

The Mansion House

Erin's Dyke, Harrow Weald, Herts

Peter Copp and Ray Hocking of Stoy Hayward, The Joint Administrative Receivers, offer for sale as a going concern the business and assets of the above hotel located near the M1 and M25.

- ◆ Renowned Country House Hotel standing in 10 acres, former home of W S Gilbert
- ◆ 46 ensuite bedrooms
- ◆ Magnificent 95 seat Music Room Restaurant, Function Suites and Syndicate Rooms
- ◆ Substantial staff accommodation
- ◆ Long Leasehold interest

Best and final offers in excess of £2 million to be submitted by 2 December 1991.

Further details may be obtained from the sole agents D Mayes or R Barlow, Messrs Druce Hotels & Leisure International, 151B Park Road, London NW8 7HX. Tel: 071-722-4454, Fax: 071-586 9534.

STOY HAYWARD

Accountants and Business Advisers A member of Horwath International
Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business
8 Baker Street, London W1M 1DA. Tel: 071-486 3888.

Shopfitting Business

Leicester

The Joint Administrative Receivers offer for sale the business and assets of WFS Displays Limited as a going concern.

Principal features include:

- Leasehold premises, Leicester.
- Specialist machinery.
- Furniture and fittings.
- Stock and work-in-progress.
- Benefit of on-going contracts.
- Turnover estimated at £900,000 per annum.

For further information contact the Joint Administrative Receiver, Myles Halley, KPMG Peat Marwick, Peat House, 1 Waterloo Way, Leicester LE1 6LP. Tel: (0533) 471122. Fax: 0533 547626.

KPMG Corporate Recovery

Specialised Bandage
Manufacturers

Leicester

The Joint Administrative Receivers offer for sale the business and assets of Textastic Limited as a going concern.

The principal features include:

- Texagrip brand name.
- Turnover £800,000 per annum.
- Leasehold premises 7,000 sq. ft.
- Specialised circular rib knitting plant.
- Export customer base.
- Range of sportswear support products.

For further information contact the Joint Administrative Receiver, Myles Halley, KPMG Peat Marwick, Peat House, 1 Waterloo Way, Leicester LE1 6LP. Tel: (0533) 471122. Fax: 0533 547626.

KPMG Corporate Recovery

Glass Reinforced
Polyester Manufacturers

The Joint Administrative Receivers offer for sale the business and assets of Polymath Shopfitting Supplies Limited, manufacturers of products for the building and shopfitting industries.

- Wide product range includes shop facias, architectural mouldings, point of sale and display equipment, heraldic work and decorative signs
- Located between Leicester and Loughborough with easy access to M1 motorway

- Turnover exceeds £600,000 per annum
- Experienced workforce
- Freehold factory available

For further details please contact G C S Baker or T Frid, Ernst & Young,

Provincial House, 37 New Walk, Leicester LE1 6TU.

Telephone: 0533 549818. Fax: 0533 551357.

ERNST & YOUNG

Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Printing Business for Sale

As a result of impending retirement of the owner Managing Director, a first class printing business is on the market. Producing high calibre colour work, the business has a turnover of £5M, owns excellent freehold premises in the city centre, has an exceptionally well equipped plant and long serving staff. Write Box H9222, Financial Times, One Southwark Bridge, London SE1 9HL.

CAMBRIDGE CITY
CENTRE SELF
SERVICE
RESTAURANT

120 covers. Air conditioned. Luxuriously equipped. £12,000 per week sales at 62% GPM. New 21 year lease. Predominantly daytime trade only. £295,000 - Ref C2081CL. Please contact The RSBS Group Ltd on: (0480) 75005 or (0234) 268288

OPPORTUNITIES IN PRINT

The following is a representative selection of the Print Companies we have on offer at this time. It is only a selection and the range is from as little as £300K turnover per annum to in excess of £20 million. In spite of the savage recession there ARE buyers prepared to commit resources if a proposition can be put with some imagination and understanding.

There will NEVER be better opportunities than exist today and we will welcome being contacted by buyers or sellers who demand a great deal more than the services of a 'leading agency'.

CODE	AREA	TYPE OF PRINTER	TURNOVER MILL.
S/150	South East England	Commercial/General	£8.0
S/169	North West England	ColourSheet	£1.2
S/174	South East England	ColourSheet	£0.7
S/177	Midlands	General Commercial	£1.25
S/184	North West England	General/Colour	£1.7
S/187	London	ColourSheet	£5.0
S/192	Scotland	Repro	£0.8
S/193	London	Commercial/General	£0.8
S/194	London	Commercial/General	£0.5
S/197	Thames Valley	Sheet Fed Colour	£3.0
S/201	Midlands	WebSheet	£9.0
S/202	North England	Business Forms	£4.5

If you would like to talk in strict and absolute confidence, please ring

PETER DARLINGTON
PETER DARLINGTON PARTNERS LTD
26 Upper Dixonson Street, Wigan, WN1 2AG
Tel: (0942) 41172 Fax: (0942) 824794

STORAGE AND FRESH
PRODUCE MARKETING

Due to owner retiring - unique opportunity to acquire FREEHOLD premises including: COLD STORES, WAREHOUSE, PACKHOUSE equipped for Fresh Produce prepacking and repacking, totalling about 14,000 Sq. ft. plus MEZZANINE OF 3,500 Sq. ft. Additional OFFICE BLOCK of 1,900 Sq. ft. Also option to purchase all or share of FRESH PRODUCE TRADING COMPANY with broad supplier/customer base and experienced staff. Conveniently located in central KENT within easy reach of M20/M25, Channel Tunnel, Southern Ports and London. Write: Ref 22, 43 Earls Court Road, London W8 6ED. Fax: 071-937-1447.

STRUCTURAL REFURBISHMENT COMPANY

Seeks merger with large Conglomerate or Construction Company to facilitate full growth potential

- Privately owned and profitable
- Very broad blue chip client base including the water industry
- Nationwide activity
- Heavily involved in Environmental works and Energy Conservation.
- Healthy forward order book (£4.5 m.)
- Projected turnover in excess of £10m/
- Freehold prestigious office and workshop 16000 sq. ft.
- Further scope of expansion land
- International enquiries welcome.

Principles only, Write Box H9212, Financial Times, One Southwark Bridge, London SE1 9HL

INVESTMENT
OPPORTUNITIES IN
SLOVENIA

The Development Fund and the Agency for privatisation are pleased to offer for sale

JAVOR
Pivka, Slovenia



A wood processing industry situated at Pivka, 50 km from the Italian border.

- 65 million DM of annual turnover
- Diversified line of wood products of consistently high quality
- 75% of Sales realised within EC
- Low production costs
- Excellent growth opportunities

Price Waterhouse's International Privatisation Group is serving as privatisation advisor for this transaction.

Contact Rajapakse at the Development Fund

Phone: +38-61-349-460
Fax: +38-61-346-660

Price Waterhouse
International Privatisation Group

The Development Fund of the Republic of Slovenia
Agency for Privatization of the Republic of Slovenia

GREATER LONDON
HIGHLY STRATEGIC LOCATION

NEW BUILD

150 BEDROOM 3* HOTEL
PROJECT

Proposed opening 1993

FOR SALE

Price c.£50,000 per bedroom
to include F, F and E

Subject to Contract

MAJOR FRANCHISE
AVAILABLE

Subject to Purchaser's Status

Apply to Box No: H9248
Financial Times,
London SE1 9HL

Property Development
Opportunity

The Joint LPA Receivers offer for sale the following site:

- ◆ Springfield Road, Camberley, Surrey

A development of 7 executive houses on a site off Springfield Road. The unique site backs onto Camberley Golf Course and is in an exclusive residential area. The houses are in various stages of construction from foundation level to just below eaves.

For further details please contact the Joint Receiver P R Copp, FCA, FCCA or C J Grove, ACA (Ref: CJG) at Stoy Hayward, 8 Baker Street, London W1M 1DA. Tel: 071-486 3888 Fax: 071-435 3944.

STOY HAYWARD *Horwath*
Accountants and Business Advisers A member of Horwath International
Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business

Wiseton Hall Estates Limited in
Administration, Joint Administration Messrs.
M.J. Moore & E. Klempka of Cork Gully,
Albion Court, 5 Albion Place, Leeds, LS1 6P

THORSEY HALL
NOTTINGHAMSHIRE

M1 Junction 29.12 miles. A14 4 miles. Nottingham 20 miles.

A magnificent 200 room Grade I Listed Mansion comprising 88,000 sq.ft. Planning consent for change of use and conversion to a 5 Star Hotel and Conference Centre. Substantial structural works already undertaken.

FOR SALE FREEHOLD

FOR FURTHER INFORMATION CONTACT:
(021) 454 4433

DRUCE

Hotels & Leisure International

FOR SALE

SHOWERSCREEN MANUFACTURER

Luxury shower and bathscreen product range

Rapidly expanding and well-structured
national customer base

Healthy existing and forward order book

Write Box H9230, Financial Times,
One Southwark Bridge,
London SE1 9HL

FLEXIBLE BULK CONTAINERS

The Joint Administrative Receivers of Holmesworth International Ltd offer for sale the flexible intermediate bulk container manufacturing business as a going concern, comprising:

- 16,000 sq. ft. modern factory premises in Billingham, Cleveland and leasehold sales offices in Nottingham.
- Appropriate plant and machinery for manufacturing in special clean environment.
- Significant order book and committed customers.
- Stocks of raw materials and WIP.
- Manufacturing workforce of 40 persons.
- Turnover in year ending September 1991 approx £1.1m.

For further details please contact
Rod Sutton or Lee Manning,
Buchler Phillips & Co, 84 Grosvenor St,
London W1X 9DF.
Telephone 071-493 2550.
Facsimile 071-629 9444.

b

BUCHLER PHILLIPS & CO.

Milurn Engineering
Company Ltd

(In Receivership)
Sturminster Newton,
Dorset

Manufacturers of binding machines, assets comprise:

- 7,000 sq. ft. freehold property
- Plant and equipment (book value) £80,000, stocks (book value) £55,000
- 24 employees
- Annual turnover approx £1m

For further details contact the Joint Administrative Receiver: Peter Hall, Grant Thornton, 31 Carlton Crescent, Southampton SO1 2EW. Tel: 0703 221231. Fax: 0703 330443.

Grant Thornton

The U.K. member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

BUSINESSES FOR SALE

TURRIFF CORPORATION PLC & UK Subsidiaries in Administrative Receivership (excluding Technicare International Limited)

The Joint Administrative Receivers offer for sale the business and assets of the group:

CONSTRUCTION DIVISION**Turriff Construction**

- Major building contractor based in Warwick, Salford and Durham.
- Turnover £80m.
- 352 employees.
- Order book £36m - excellent client base.
- Range of contract values £120k-£13m.

Moffat Whittall

- Birmingham based contractor in refurbishment and small works.
- Turnover £11m.
- 70 employees.
- Order book £3m.
- Contract values up to £1.25m.

Moffat Joiners

- High quality specialised joinery business based in Birmingham.
- Turnover £625k.
- 12 employees.

PLANT DIVISION**Neagron Plant**

- Hire, sale, testing and repair of crawler cranes.
- Based in Barking, Essex.
- Fleet includes cranes, grabs, skips and trench sheets.
- Turnover £5m.
- 66 employees.
- Sole UK distributor for Sumitomo Cranes.

Abelson Plant

- Plant hire company operating from Gateshead, Stroud, Wolvey and Barking.
- Fleet of 170 machines including Volvo dump trucks, excavators, etc.
- Customers based in materials handling, extraction and construction industries.
- Turnover £4.8m.
- 42 employees.

Total Power Tools

- Small plant and power tool hire to the construction industry.
- Operates from 11 depots around London and the South.
- Turnover £4.7m.
- 95 employees.

OTHERS**Quoin Homes**

- Residential house builder in South East England.
- 5 residential houses on 3 sites and 21 units on a 24 unit retirement development.
- 4 employees.

Express Insulation

- Specialists in thermal insulation and licensed asbestos removers.
- 1,556 sq. ft. leasehold premises in Fareham, Hampshire.
- 22 employees.
- Turnover £1m.

People Placement

- Technicare International Ltd is not in receivership but the underlying business and assets are available.
- Specialist engineering manpower for the oil industry on a worldwide basis.
- Based in Newbury.
- Turnover £2.5m.

Turriff Properties

- Freehold office accommodation at Warwick, Meriden, Hockley and Small Heath.
- Interests in ten Joint Venture Companies developing residential, industrial and commercial property.

For further information please contact:
David Lovett or Ian Best, Arthur Andersen & Co.
1 Victoria Square, Birmingham B1 1BD

Tel: 021-233 2101
0926-495 327

Fax: 021-643 7647
021-233 2954
0926-497 315

Arthur Andersen & Co. are authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business

**ARTHUR
ANDERSEN**
ARTHUR ANDERSEN & CO., S.C.

EDWARDS OF TAMWORTH LIMITED (In Administrative Receivership)

The Joint Administrative Receivers, H C Brunt and S P J Wadstead, offer for sale the business and assets of the above company which is based near Tamworth, South Staffordshire.

- Modern spacious 7 car showroom with office accommodation
- Well equipped 10 bay workshop with self-contained parts and accessory shop
- Body and paint shop facility nearby
- VW/Audi franchise available (subject to VAG approval)
- Large Forecourt and secured open air storage facility to rear
- Approximately 5 acre freehold site with outline planning permission for housing development
- Close to M42/M6 motorway network

For further information please contact H C Brunt or I J Gould of:-

Kidsons Impey
Chartered Accountants
Bank House
8 Cherry Street
Birmingham B2 5AD

Tel: 021 631 2631
Fax: 021 236 2856

**PRINTING**

Central Scotland, long established quality and commercial print company with comprehensive printing and binding facilities.

Turnover circa £2m.
Enquiries by principals only please.

Write Box H9217 Financial Times, One Southwark Bridge, London SE1 9HL

Picture Framing

Assembly and Wholesale Distribution. Produced to Order. Strong Customer Base. Turnover £500,000. Highly Profitable. Located East.

Write Box H9227, Financial Times, One Southwark Bridge, LONDON, SE1 9HL

SPAIN

For Sale, small ELECTRIC COMPANY. Full activity, modern premises and machinery. The most prestigious customers. Turnover US \$500,000. Contact: Victorina Alba Antonio Salvador, 70-14da, 28026 MADRID-SPAIN Fax: 34-1-7779824

FOR SALE PROFITABLE BUILDING CONTRACTOR

We are retained to sell the above Company which offers a unique opportunity to expand the business within 40 miles of its base.

KEY BENEFITS:-

- * TO £4M PLUS
- * Profitable over many years
- * Strong middle management team in place
- * Long established in its field
- * Located just west of Heathrow
- * Blue chip customers including Local Authorities, Banks, Building Societies and Trusts all loyal over many years
- * Not dependent on development projects

FOR DETAILS WRITE OR FAX: JOHN POLMEAR

ACS

GROVE LODGE
LAWRENCE GROVE
BINFIELD, BERKS
RG12 5BL

Fax: 0344 411620

WE SPECIALISE IN SELLING COMPANIES

**DAY CARE NURSERY**

Private children's day nursery in a superb detached Victorian property. Based in North Liverpool. Fully registered with NNEB, staff for 25 children. An excellent opportunity for a medium to large size company/PLC looking for in-house care.

Further details from agents:-

Roskill, Lynton, Merseyside, L31 4JF
Tel: 051 526 4008 Fax: 051 526 1673

A. ANTHONY ASSOCIATES
CORPORATE FINANCIAL PLANNING

PRIMARY PRINT GROUP (IN ADMINISTRATIVE RECEIVERSHIP)

The Joint Administrative Receivers offer for sale on a going concern basis the business and assets of a major printing group. The group has three separate printing companies with a centralised administration and accounting facility.

LORDS PRINTERS LTD

- * Turnover £2.7 million.
- * Substantial freehold property in Burnley, Lancashire.
- * Commercial printers with litho, letterpress and fully equipped design and photography studios, up to BS5750 standards.
- * Many blue-chip customers.

ABBA LABELS LTD

- * Turnover £400,000.
- * Located within the premises in Burnley.
- * Multi-colour combination printing, front and reverse printing.

POSTLINES LTD

- * Turnover £400,000.
- * Leasehold property in Salford.
- * Screen printing specialist, multi-colour, half-tone and single line, long and short run production.

For further information please contact J J Gleave or A C O'Keefe
Arthur Andersen & Co, Bank House, 9 Charlotte Street, Manchester M1 4EU.
Tel: 061-200 0302. Fax: 061-200 0343.

**ARTHUR
ANDERSEN**
ARTHUR ANDERSEN & CO., S.C.

TAYMATIC LIMITED (In Members' Voluntary Liquidation)

The Liquidator, H C Brunt, offers for sale the business and assets of Taymatic Limited, a high quality, specialist, turned parts manufacturer based in the West Midlands.

- * Capable of batch or continuous production.
- * Late model, quality, CNC Tool Room Machinery.
- * Extensive leasehold premises within easy reach of the Midlands motorway network.
- * Turnover 1990/91 c £800,000.
- * Blue chip customer base.

For further information please contact H C Brunt or A G Haden of:-

Kidsons Impey
Chartered Accountants
Bank House
8 Cherry Street
Birmingham B2 5AD
Telephone: 021 631 2631
Fax: 021 236 2856

**CIGARETTE MACHINE BUSINESS**

established 21 years and based in North London. Net profit £53,924p.a. Involves filling machines in leisure & industrial locations. Can be operated by male or female car driver working from home but ideal for a couple. Full training given. Price £126,500 plus SAV.

Write Box H9228 Financial Times, One Southwark Bridge, London SE1 9HL

UNIQUE INTERNATIONAL BUSINESS.

Small but successful. Wonderful opportunity for enthusiastic person with £1.35 m to invest for excellent return. Business including superb residential property with 130 acres in style West Sussex, Arundel and Goodwood. Repetitive for sale as profit business and could increase dramatically with new ideas for 1992.

Serious enquiries only please to Box H9241, Financial Times, One Southwark Bridge, London SE1 9HL

SURREY, NEWSAGENT/BOOKS for sale. Turnover £12,000 p.a. Valuable new items. All enquiries Tel. (0432) 433555 or Fax: (0432) 433552.

FOR SALE

Attractive Virtual Freehold Car Park in Knightsbridge, London SW7

- * Guaranteed income of £475,000 per annum inclusive over first 12 months
- * Opportunity to increase car parking rates at not less than annual intervals

£5,750,000

Contact: Philip Cooper or Hannah Milne

Weatherall
071-493 5566

PUBLISHING

For sale: well established operation involving calendars and annuals with sales of £500K. Opportunity to printer or publisher. Principals only write to Box H9242, Financial Times, One Southwark Bridge, London SE1 9HL.

LUXURY BATHROOM COMPANY

Probably the world's finest bathroom design manufacturing and installation company. Two superb central London showrooms, own moulds, patents and worldwide registrations. Underfunding makes sale necessary. Fax: 0902-405721 Principals only

INVESTMENT
OPPORTUNITIES IN
LOVENIA

FOR
SAL

TER LONDON
STRATEGIC LOCATION

WE BUILD

HOTEL

FOR SALE

10,000 per bedroom

large R.F. and E

FRANCHISE

AVAILABLE

BUSINESSES FOR SALE

John Wood & Son (Exmoor) Limited A F Nichols Limited Knapp Leather Limited

(In Administrative Receivership)

The Joint Administrative Receivers offer for sale the business and assets of the above companies. The business is engaged in the manufacture and processing of sheepskins and sheepskin products together with contract tanning of small lambskins.

- Turnover £1m per annum
 - Experienced workforce
 - Wide range of manufactured sheepskin products under recognised brand names
 - Large order book
 - Substantial freehold property, including cottage and outbuildings suitable for residential purposes
 - West Country tourist attraction with significant tourist income
- For further details please contact C M Clapp FCA and D H A Peacock, Joint Administrative Receivers at Ernst & Young, One Bridewell Street, Bristol BS1 2AA. Tel: 0272 290808. Fax: 0272 260162.

ERNST & YOUNG

Authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

LEONARD CURTIS

BY ORDER OF THE JOINT ADMINISTRATIVE RECEIVERS
D. SWADEN FCA & DERMOT POWER FCA
IN THE MATTER OF

STAVMOSS LIMITED

Offers are invited for the business and assets of the above company. Its main activity is the provision of structural steel and tube work. The company also operates as Fabrication Engineers and Welding Specialists.

- Annual Turnover £2.3m.
- Order Book £1m.
- Freehold premises in Haydock, Merseyside
- Offices and building 13000 sq ft.
- 13000 sq ft. of land

Enquiries should be addressed to Colin Burke at:

Leonard Curtis and Partners
3rd Floor, Peter House, Oxford Street, Manchester M1 5AB
Tel: 061 236 1955 Fax 061 228 1929

Sandwich supplier to the food service industry

Southern Universal Limited

(In Receivership)

The Joint Administrative Receivers offer for sale the business and assets of this national sandwich manufacturer, based near Cullompton, Devon.

- 10,000 sq. ft. modern leasehold factory.
- £2 million annual turnover.
- customers comprise established national organisations.
- own distribution vehicles.
- 60 employees.

For any further information, please contact Alistair Grove or Andrew Beckingham of Cork Gully, Mayflower House, Armada Way, Plymouth, Devon, PL1 1LD. Tel: 0752-668888. Fax: 0752-604108.

Cork Gully is authorised in the name of Cooper & Lybrand Debtors by the Institute of Chartered Accountants in England and Wales to carry on investment business.

Cork Gully

FOR SALE

Freehold Office Premises, Central Bradford, W. Yorkshire. 11,000 sq ft. In need of refurbishment. May split or let. £195,000 o.v.n.o.

FURTHER DETAILS

G S PEARSON & CO, CHARTERED ACCOUNTANTS
Openstead Court, North Lane, Haslingbury
Leeds, West Yorkshire LS6 3HE

COMPUTER COMPANY - SILICON VALLEY CALIFORNIA, U.S.A.

Established manufacturer of graphics controllers for VME architecture computers. Last fiscal year's sales \$1.2 million. net income approximately 30% of sales. Ten years of continuous business in the same market with exceptional roster of repeat "blue-chip" industrial customers. Other business interests include real estate, property management, and a subsidiary to sell his interest now. Extraordinary opportunity to enter the US market through an established company. All serious offers will be considered and replied to quickly.

Please respond to:
Mary L'Esperance-Adair, 1091 Shoreline Boulevard
Mountain View, California, U.S.A. 94043.
Tel: 415.965.1700. Ext: 224. Fax: 415.965.4607.

DIVERCO

Sell Companies
Nationwide

SELLERS and BUYERS

Contact in confidence
DIVERCO LTD,
4 Bank Street,
Worcester WR1 2EW.
Tel: 0905 22383

COMPANY NOTICES

NATIONAL WESTMINSTER BANK PLC

US\$150,000,000 7 1/2% Deposit Notes 1991
£100,000,000 8 1/2% Deposit Notes 1992
A\$70,000,000 13 1/4% Notes 1992
A\$75,000,000 14 1/4% Notes 1993
US\$500,000,000 Primary Capital FRNs (Series C)
DM300,000,000 6% Subordinated Bearer Bonds 1998
US\$300,000,000 Variable Rate Capital Notes 2008
US\$500,000,000 Undated Variable Rate Notes

NATWEST AUSTRALIA BANK LIMITED
A\$50,000,000 13 1/4% Notes 1991
A\$50,000,000 13 1/4% Notes 1991
A\$50,000,000 13 1/4% Notes 1992
A\$75,000,000 11 1/4% Notes 1995

NATIONAL WESTMINSTER BANK PLC,
STOCK OFFICE SERVICES
Paying Agent - Change of Address

Notice is hereby given by National Westminster Bank PLC, Stock Office Services ("Stock Office Services") to holders of the above Notes, for which Stock Office Services is a Paying Agent, that, with effect from 25th March, 1991, its specified office for the purpose of such Paying Agent's functions was moved to the following address:

National Westminster Bank PLC, Global Securities Services,
Stock Office Services, P O Box No 10,
National Westminster House,
Station Way, Crawley, West Sussex RH10 1JE

CEC-Time Limited

(In Administrative Receivership)

The Administrative Receivers offer for sale the business and assets of CEC-Time Limited. The company provides personnel together with inspection and non-destructive testing services to the offshore construction, petrochemical and power generation industries.

- 21 year trading history
- Turnover for year ended 31 December 1990, approximately £6.5m
- Turnover for 10 months to 30 October 1991 circa £6.0m
- Blue Chip customer base and order book
- Long leasehold premises of approximately 15,000 sq ft, including 3 large fully equipped x-ray exposure bays (Freehold may be available for sale)
- Comprehensive range of modern NDT equipment
- Skilled labour force

All enquiries to Roger M Griffiths, Joint Administrative Receiver, Ernst & Young, Central Exchange Buildings, 93A Grey Street, Newcastle upon Tyne NE1 6EJ. Telephone: 091 221 2222. Fax: 091 261 2916.

ERNST & YOUNG

Authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.

NATIONAL 2 HOUR TELEGRAM/FAX DELIVERY SERVICE 1000 + OUTLETS

Business no longer fits with group core activity. Requires development by new management team. Ideal fit for courier company or office equipment distributor.

For details Fax: 081-547 0857

BY ORDER OF THE BOARD

A group of fully fitted hairdressing salons for sale within M25 area. Prime locations. Under management. All reasonable offers considered.

Write Box H9192, Financial Times, One Southwark Bridge, London SE1 9HL

FOR SALE

EXPORT PACKING CO. - MIDLANDS
Established 16 years. Little competition. Good motorway connections. Directors wish to concentrate on other activities.

Write in strict confidence to Box No H9248 Financial Times, One Southwark Bridge, London SE1 9HL

Capital Gains Tax Loss Company

Virtually dormant company with cash of £3 million and agreed Capital Gains Tax losses of £3 million for sale.

Write Box H9197, Financial Times, One Southwark Bridge, London SE1 9HL

Smith & Williamson

Corporate Recovery • Litigation Support • Corporate Finance • Taxation • Banking Investigations • Investment Management • Personal & Life Insurance • Accounting • Auditing

The Joint Administrative Receivers offer for sale the business and assets of HLC LIGHTING

- Manufacture and assembly of quality light fittings, both mains and low voltage, principally for the leisure industry.
- Well established business trading for 19 years.
- Annual turnover approx. £700,000.
- 5,000 sq ft modern high quality industrial park space, 999 yr leasehold, in Leighton Buzzard with 12 dedicated car park spaces.
- CAD CAM System with Nishimbo MAP 630 CMC turret punch, 1990.
- Fully automated Electrostatic Powder Coating Plant, 1988.
- Stocks, cost some £40,000.
- Well equipped workshop.

For further information contact Mike Oldham or Nicholas Rae on 071-637 5377 at the offices of Smith & Williamson, No 1 Riding House Street, London W1A 3AS. Fax: 071-323 5683.

Smith & Williamson, Chartered Accountants, Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business

LEGAL NOTICES

LHC CATERING EQUIPMENT

LIMITED IN RECEIVERSHIP

NOTICE IS HEREBY GIVEN, pursuant to Section 48 of the Insolvency Act 1986, that a MEETING OF THE CREDITORS of the above named company will be held at the Grand Hotel, Grandby Street, Leicester on 22 November 1991 at 10.30 am, for the purpose of having laid before it the report prepared by the Administrative Receivers in accordance with the said Section and, if thought fit, appointing a Committee.

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ARTS

More reputation than substance

William Packer reviews Gerhard Richter at the Tate Gallery

Gerhard Richter is now nearly 60. He was born in Dresden, where he subsequently studied, and came over to the West in 1961. His studies continued at the Kunstakademie at Düsseldorf for a year or two, and he has been professor there since 1971. He has thus lived and worked at the very centre of West Germany's art world, a significant and influential figure in the post-war German generation that, with Beuys and Baselitz, Kiefer, Polke and the rest, has been so powerful a force in the international art world over the past 30 years. But for all his critical standing, he has remained comparatively unknown in Britain, an artist of reputation rather than substance, his work apparently the more arbitrary and inconsistent for the infrequency of its being shown.

The 48 grisaille portraits of various cultural luminaries, from H.G. Wells to Anton Bruckner shown at Nottingham in 1978, the abstract paintings in the Whitechapel in 1979, and in recent years a handful of dealers' shows of current work, are all we have seen. The full retrospective which has opened at the Tate Gallery (until January 12) is therefore hardly premature. It is, after all, one of the Tate's principal statutory functions to monitor such international reputations. It doubts arise, they are not of the Tate's but of Richter's own making. The problem with Richter is indeed his apparent inconsistency, which taints the exhibition's selector, Sean Rainbird, in a fine flight of catalogue-speak, qualifies as "determined heterogeneity". "His work seems to move at will," he goes on, "between figurative and abstract modes of representation and demonstrates a contrasting variety of methods for applying paint onto canvas". Indeed it does, and what we discover as we pass through this show, or ponder alike the views of his several apologetes and the artist's own rumina-

tions, is an over-riding desire to have it all ways - to be at once the private and the public artist, to be indulgently painterly and yet critically credible, to be fashionable and taken seriously, great artist and profound thinker.

So it is that every work is fraught with significance and the touch of genius, even in its inconsequentiality. All is special pleading, self-justification, self-indulgence. And the sad thing is that beneath it all is a natural and interesting painter trying to be himself. Some of the abstract paintings of the early 1970s, of energetic masses of twisting and swirling lines that establish an infinitely complex pictorial space, are especially remarkable in showing us the true painter trying to get out.

But for the most part it is a case history of that heresy endemic to late modernism, in which the artist determines the work self-consciously, rather than submits himself to the necessities the work itself discovers. Arrogant artists are nothing new, but we have come to take them too readily at their word. For Richter the issue has always been to decide what is significant in current terms - and then do it, with every one a winner.

He destroyed all his early work on coming to the West. His career now starts in 1962 with a painting of a table of which the centre is roughly painted out, and continues with paintings based on impersonal or ironically neutral photographic images of Jackie Kennedy, bombers, candelabra, a chair, the Sphinx - that in the 1960s placed him in the currency of European Pop-Art. The treatment is loose and painterly, the image finally established on the surface by a regular lateral drag of the brush through the fat paint.

From there we go through the canon of Richter's fashionable preoccupations, with abstract expressionism, monochromatic minimalism, graphic and tactile field painting, photo-based landscape, portraiture and still-life, sky-scapes and colour charts. Everything is done with the same technical assurance, but the creative desperation grows ever more palpable, in the recent dragged abstractions most of all.

"Art is wretched, cynical, stupid, helpless, confusing - a mirror of our spiritual poverty... we have lost big ideas, utopias, any sense of faith, anything that endows meaning." So says Richter himself in a note of early 1988, and one cannot but feel that he has done his own little bit to help it all along, with his self-conscious posturing and theorising. What, we might ask, about simplicity or directness of response, or that interest in the model ruled out of court all those years ago?

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A many-layered epic: scene from Robert Lepage's "The Dragons' Trilogy"

The Dragons' Trilogy

RIVERSIDE STUDIOS

There are many layers of the mind, and a successful theatre work occupies our attention on several of these layers at once. Often we are not aware of this; and that is the object of the old-fashioned well-made play. Sometimes, however, a theatrical event is so overtly many-layered that we can have no single, simple response. Robert Lepage's epic *The Dragons' Trilogy*, which is playing at the Riverside until November 24 (and then for a week at the Tramway in Glasgow) is such a piece.

Some facts. Robert Lepage is the star Québecois director of *Tectonic Plates*, seen at the National and Tramway last year. *The Dragons' Trilogy* began life in 1985; an earlier, shorter version visited Britain in 1987. This complete version, now on its final European tour, has collected numerous awards worldwide. It can be seen in full at weekends (six hours, three intervals) or in two parts on alternate nights mid-week.

With marvellous scope, it traces the threads of two Québecois characters, Jeanne and Françoise, their families and connections over three generations, over the continent from Quebec, via Toronto, to Vancouver, from 1910 to more or less the present day. But its underlying theme is the opposite poles of cultural imperialism and multiculturalism. The story of these particular French Québécois connects with the stories of Chinese and Japanese immigrants. The dragons of Mah Jong are among the evening's recurrent symbols.

The Dragons' Trilogy deftly weaves between scenes in French, English and (seldom) Chinese, sometimes using simultaneous translation, often not. More important, it keeps moving beyond language into poetic mime or ritual. But Lepage provides so many memorable images, so many potent ironies and ambiguities, with the several strands of his overlapping stories that it is some time before one realises that there is a real story here, and that it matters. In fact the story becomes the evening's weakest component. A kind of sentimentality begins to collect under its surface.

The great talent of Lepage and his cast is never in doubt. I was astonished at the end to realise that I had been watching only eight players all evening. And the poetry and economy with which Lepage employs a few props kept delighting me. In one scene, an umbrella and a few coins become a roulette wheel, then a bank, then a balloon. Brief scenes that at first seem irrelevant later recur and show their place in the evening's mosaic. The action

takes place on and around a huge rectangle of sand. The way that lighting plucks out various areas from the surrounding obscurity is always beautiful.

All that is on one level, and in terms of staging Lepage and this Théâtre Repère keep the mind always occupied and refreshed. On another level, *The Dragons' Trilogy* is too slight for its epic scale. For all the compassion with which it charts its tale, it doesn't take us into its characters' lives with much intensity. Lepage has been compared with both Peter Brook and Pina Bausch, and *The Dragons' Trilogy* shows why. I think he is a more elaborate craftsman than either, but he is also less radical and - more important - his images have less resonance.

When I compare this trilogy to another trans-historical theatrical epic, the very different and more conventional *Show Boat*, I see at once that Jerome Kern's work is both more intimately affecting and more powerful in its historical vision. I am glad to have seen this complete account of *The Dragons' Trilogy*, but it is not the category-breaking masterpiece that I had been led to hope for.

Alastair Macaulay

Stephen Sondheim's opera, *Sweeney Todd* has just finished a five-night run at HMP Wormwood Scrubs before transferring to the Lyric Theatre, London, November 12-16. The show was produced jointly by Wormwood Scrubs D Wing and Pinocchio Opera, the first such collaboration in the UK, and staged in the prison chapel.

The principals and chorus means taking risks; but for those among the performers who were inmates, the risks were still greater. The result was a moving and remarkable evening.

Pinocchio Opera was founded in 1987 by Wadi Kani, who conducts with great tact, warmth and skill. The company has performed three operas in Wormwood Scrubs: *The Nozze di Figaro*, *The Barber of Seville*, and *Pinocchio*. This is the first joint production with Pinocchio, the result of intensive work since April. The inmates of D Wing designed and built the set in prison, and rehearsed with the Scrubs' Drama Director Amanda Affleck. The show was crisply directed by Francesca Joseph.

The professionals did a fine job, particularly Martin Nelson as Sweeney, a cadaverous and sinister villain empowered with a moral sanction from a wronged past. He sang "Pretty Women" and "Johanna" accurately and lucidly. Alongside him, Mary King as the demon plemaker of Fleet Street, Mrs Lovett, splices up "the worst pie in London" by recycling Sweeney's victims (lawyer pie is expensive, actor pie overdone). "Fortunately it's all so clear, that everyone goes down with beer."

The bass Lynton Black as the paedophile Judge and soprano Shenna Wolstencroft as Sweeney's helper provided admirable support, making sure that Sondheim's ironies were fully explored, his rhymes completely unwrapped. The principals and chorus trusted to Sondheim's harmonies, confidently hanging out the voice and waiting for the orchestra to make sense of it.

Sweeney Todd

WORMWOOD SCRUBS

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The Kirov in Washington

THE KIROV BALLET

For many years Soviet ballet remained virtually untouched by developments in the west. The works of Frederick Ashton, George Balanchine and Antony Tudor did not find a place in their repertoires. Dancers who might have been purposed to show just how far the Kirov company has come, Asymuratsova's emoting in the pas de six from *Esmeralda* was both justified and affecting, but the performance hit rock-bottom with the lame pas de trois from *Fairy Doll* and the grand pas de deux from *Sleeping Beauty*.

Soviet dancers too often rely on flashy effects while real technical difficulties are judged or faked. This will not do in Balanchine, as was demonstrated in the last number in this section, his *Chalkdust* pas de deux, danced by Yulia Makhalina and Igor Zeleny. Their gingerly attack of what should be a heart-stopping moment, when she throws herself by him in a fish-diving, was unworthy of the Soviet tradition of acrobatic double-work.

In *Scotch Symphony*, too, the Syphid-like ballerina is supposed to be thrown into her partner's arms, and here the other men more or less handed her to him. But otherwise this production (by Suzanne Furman) of a decidedly minor Balanchine work has worn well.

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Teatr Cricot 2's Kantor retrospective

DESINGEL, ANTWERP

Few performances demonstrate the gap between 20th century British and central European theatre better than those of Teatr Cricot 2's Kantor retrospective, on a European tour which I caught at Antwerp. The great Polish director Tadeusz Kantor died last December in Cracow, just hours after the dress rehearsal for what he called his "final spectacle", *Today is My Birthday*. It played in Antwerp with a Kantor classic from the 1970s, *Dead Class*.

Intended to be performed live but, after the New York revival topped without a wry, squinting observations and on-stage direction of the avant-garde maestro himself, it was given here in Andrzej Wajda's film of the original version.

These two pieces, separated by 30 years, share the obsessions which shape all Kantor's work: mass violence, historical forces bearing down on the powerless individual, memory and imagination versus terrorising ideology - but their conjunction here trumpets his ability to find fresh images and dramatic motifs to express them. In *Dead Class*, was faced ghosts in his work: schoolchildren to their desks. Each carries a stiff, was child effigy, memory of their younger selves, and accoutrements like bicycles and satchels; all rise, fall and pathetically obey their teacher of old, chanting false history lessons as historical reality - such as a bullying Habsburg officer - bursts into the classroom.

Their endless repetitions, each mistake in life doomed to be reenacted after death, each persecution suffered again, form a stylised routine that crosses the macabre with pantomime and puppets. More eerily remote on film than in the flesh, and lacking the life-affirming energy of Kantor on stage, it offers a deeply pessimistic message.

Jackie Wullschlager

By contrast, *Today is My Birthday*, also structured out of ritual dance and mime, is a warm, mellow piece, its recollections and repetitions a homage to continuity and the power of memory. Figures and actions from Kantor's past, remembered on his birthday, are fixed like photo stills in three huge empty picture frames. The picture-frame set, "the poor chamber of the imagination", is an individual refuge where Kantor, as a child, hid from the Water-carrier from Wilepola, Kantor's birthplace, which like a dervish amid First World War corpses, Kantor's family, father raising and draining his beer glass every few seconds, Uncle Stasio playing the violin in a mournful frenzy, appear in their frames while mini-tanks and cannons roll on stage and the Habsburg officer from *Dead Class* is recreated as first a Nazi and then a Stalinist.

Music, a backcloth in the film, animates movement here and suggests at once discord - a Jewish folk song overlaid by Beethoven's Eroica - and triumph.

Like *Dead Class*, *Today is My Birthday* is about ghosts coming alive. One scene

three concerts (Thurs, Fri afternoon, Sat) by the Chicago Symphony (435 6666)

Jackie Wullschlager

mimes the true account of the painter Jonas Stern who collapsed during the Lodz ghetto massacre in 1943, lay as dead among the corpses until nightfall, then rose and escaped. This was one of Kantor's favourite stories and, in the persons of the living artist stepping out from his vision of the dead, seems to me a key Kantor image.

In its ability to evoke the past as if it still exists, Kantor's drama is unique; only his fellow Poles Isaac Bashevis-Singer managed to do the same in literature. Kantor distils into a formal structure his personal experience of European history; his spectacles depend on austerity and discipline - black figures with ashen faces move to a jagged choreography reminiscent of early films - yet we feel we know characters like the Wilepola curate or the *Dead Class* schoolteacher as everyday acquaintances.

"I want to squeeze out of myself what to me is the only life left," says Kantor. "If anyone says he is doing it for society he is lying," Kantor once said. No contemporary theatre is more immediate and exhilarating; each work lasts 75 minutes and boasts ensemble playing of brilliant cohesion and dedication. The chair on which Kantor should have directed his recollections in *Today is My Birthday* remains empty; while his last spectacles continues live, catch it where you can.

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Jackie Wullschlager

Sweeney Todd

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Stephen Sondheim's opera, *Sweeney Todd* has just finished a five-night run at HMP Wormwood Scrubs before transferring to the Lyric Theatre, London, November 12-16. The show was produced jointly by Wormwood Scrubs D Wing and Pinocchio Opera, the first such collaboration in the UK, and staged in the prison chapel.

The principals and chorus means taking risks; but for those among the performers who were inmates, the risks were still greater. The result was a moving and remarkable evening.

Pinocchio Opera was founded in 1987 by Wadi Kani, who conducts with great tact, warmth and skill. The company has performed three operas in Wormwood Scrubs: *The Nozze di Figaro*, *The Barber of Seville*, and *Pinocchio*. This is the first joint production with Pinocchio, the result of intensive work since April. The inmates of D Wing designed and built the set in prison, and rehearsed with the Scrubs' Drama Director Amanda Affleck. The show was crisply directed by Francesca Joseph.

The professionals did a fine job, particularly Martin Nelson as Sweeney, a cadaverous and sinister villain empowered with a moral sanction from a wronged past. He sang "Pretty Women" and "Johanna" accurately and lucidly. Alongside him, Mary King as the demon plemaker of Fleet Street, Mrs Lovett, splices up "the worst pie in London" by recycling Sweeney's victims (lawyer pie is expensive, actor pie overdone). "Fortunately it's all so clear, that everyone goes down with beer."

The Kirov in Washington

THE KIROV BALLET

For many years Soviet ballet remained virtually untouched by developments in the west. The works of Frederick Ashton, George Balanchine and Antony Tudor did not find a place in their repertoires. Dancers who might have been purposed to show just how far the Kirov company has come, Asymuratsova's emoting in the pas de six from *Esmeralda* was both justified and affecting, but the performance hit rock-bottom with the lame pas de trois from *Fairy Doll* and the grand pas de deux from *Sleeping Beauty*.

Soviet dancers too often rely on flashy effects while real technical difficulties are judged or faked. This will not do in Balanchine, as was demonstrated in the last number in this section, his *Chalkdust* pas de deux, danced by Yulia Makhalina and Igor Zeleny. Their gingerly attack of what should be a heart-stopping moment, when she throws herself by him in a fish-diving, was unworthy of the Soviet tradition of acrobatic double-work.

In *Scotch Symphony*, too, the Syphid-like ballerina is supposed to be thrown into her partner's arms, and here the other men more or less handed her to him. But otherwise this production (by Suzanne Furman) of a decidedly minor Balanchine work has worn well.

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INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Yuri Temirkanov conducts the Leningrad Philharmonic Orchestra in Tchaikovsky's *Manfred* and Shostakovich's Tenth Symphony. In the Kleine Zaal, Elly Ameling gives a recital of songs by Schumann, Wolf, Poulenc and Ravel. (6718 345)

Muziektheater 20.00 Hans-Martin Schmidt conducts Johannes Schaal's production of *Fidelio*, with a cast led by Josephine Barstow. Thomas Moser and Hans Tschammer, also Thurs and Sun. (6255 455/credit card bookings 6211 211)

BARCELONA

Gran Teatre del Liceu 21.00 Uwe Mund conducts Emilio Sagi's production of *Idomeneo*, with a cast led by Gösta Winbergh, Susanne Mentzer and Marie McLaughlin. Final performance on Thurs (412 1488)

BIRMINGHAM

Symphony Hall 20.00 Maxim Shoykhit conducts the Jerusalem Symphony Orchestra in music by

BRUSSELS

This week's events include a concert tonight by the Sney Quartet at the Palais des Beaux Arts, featuring Mozart's Clarinet Quintet with Ronald Van Spaendonck. Tomorrow, Colin Davis conducts the Dresden Staatskapelle in an all-Mozart programme, and on Fri, Andre Vandernoot conducts the Belgian Radio Orchestra in an all-Ruslan programme, including Shostakovich's Fifth Symphony (507 8200). At the Monnaie on Sun, Dimitri Hvorostovsky and Agnes Balssa head the cast in a concert performance of Donizetti's *La favorita*, sung in Italian (219 6341)

CHICAGO

Civic Opera House 19.30 Bruno Bartoletti conducts Lyric Opera production of *The Gambler*, sung in English and staged by Liviu Ciulei in designs by Radu and Miruna Bozescu. The cast includes Jacques Trussel, Sheri Greenwald and Felicity Palmer, also Fri. Tomorrow and Sat: *Puritani* (332 2244). This week's programme at Orchestra Hall includes a visit on Fri from the Oslo Philharmonic under Marius Jansons, a piano recital by Alicia de Larrocha on Sun afternoon, a concert by the Prague Symphony Orchestra on Sun evening, plus

LONDON

Covent Garden 19.30 Georg Solti conducts first night of Elijah Moshinsky's new production of Simon Boccanegra with a cast led by Alexandru Agache and Kiril Kanawa. Runs till Nov 30, with next performance on Sat (071-240 1066)

Coliseum 19.00 Paul Daniel conducts Graham Vick's production of *Le nozze di Figaro*, with a cast led by Bryn Terfel, Joan Rodgers, also Fri. Tomorrow and Sat: *The Mikado*. Thurs: *Un ballo in maschera* (071-836 3161)

Royal Festival Hall 19.30 Neeme Järvi conducts the Philharmonia Orchestra in music by Rakhmaninov and Shostakovich, with Louis Lortie soloist in Schumann's Piano Concerto. Tomorrow: John McLaughlin (071-928 8800)

Queen Elizabeth Hall 19.00 Mark Wigglesworth conducts David

GENEVA

Grand Theatre 20.00 Jaes Lopez-Cobos conducts Alain Marcel's production of *Il barbiere di Siviglia*, with a cast including Vessellina Kasarova, Rockwell Blake and Patrick Rafferty. Final performances on Fri and Sun (25211). Tomorrow in Victoria Hall: Jesus Lopez-Cobos conducts a concert performance of Mozart's early sacred play *Die Schuldigkeit des ersten Gebotes*, with the Lausanne Chamber Orchestra and soloists including Edith Mathis, Brigitte Fournier and Aldo Baldin (252511)

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MADRID

At the Auditorio Nacional de Musica tonight, Itzhak Perlman gives a recital accompanied by Bruno Canino. On Thurs, Miguel Groba conducts the Orchestra and Chorus of the City of Madrid in music by Bartok, Stravinsky and Turina. This week's Spanish National Opera programme on Fri, Sat and Sun is conducted by Victor Pablo Perez, and includes Mahler's Fourth Symphony and Frank Martin's *Ballade* for trombone and orchestra (337 0100)

NEW YORK

Avery Fisher Hall 19.30 Robert Shaw conducts the New York Philharmonic Orchestra and Westminster Symphonic Choir in Samuel Barber's *Prayers of Kierkegaard* and Mozart's *Mass in C minor*, with soloists including Sylvia McNair and Roger Rolf. Thurs, Fri, Sat and next Tues: Kurt Masur conducts a programme of variations by four composers (875 5030)

NEW YORK

Metropolitan Opera 20.00 Rigo Saccani conducts *Aida* with a cast led by Aprile Millo, Dolores Zajack, Nicola Martinucci and Barseg

Tumanian, also Sat. Tomorrow: L'elisir d'amore (362 6000)

New York State Theatre 20.00 City Opera ends its 1991 season with Lerner and Loewe's *Brigadoon*, daily till Sun (870 5570)

PARIS

Opéra Bastille 19.30 Myung-Whun Chung conducts Andre Serban's production of Prokofiev's *The Fiery Angel*, with Marilyn Zareau and Philippe Rouillon in leading roles. Runs till Nov 25, with next performances on Thurs and Sat (4001 1618)

Opéra des Champs-Élysées 20.30 Song recital by Barbara Hendricks, accompanied by Michel Dalbert. Thurs: Gerard Schwarz conducts the Orchestre National de France. Sat: Lazar Berman (4720 3637)

Châtelet 20.30 Broadway production of *West Side Story* opens a two-month Paris run. No performances on Thurs this week or next Mon and Tues. Otherwise daily except Mon, with afternoon and evenings performances on Sat and Sun (4028 2840)

ROME

Teatro Olimpico 21.00 Cindarella. Prokofiev's ballet choreographed by Maguy Marin. Production by Ballet of the Opera de Lyon, daily till Sun. Thurs and next Mon: Rudolf Buchbinder plays Beethoven piano sonatas (3234 890)

WASHINGTON

Blues Alley Jazz Supper Club This week's guest is Nancy Wilson, daily till Sunday (3240 Prospect St, Georgetown, 337 4141)

Chelsea Dinner Theater

The Capitol Steps: a clever, entertaining and amusing show by an ensemble specialising in political satire. Saturday evenings only (11055 Thomas Jefferson St, Georgetown, 298 8222)

Concert Hall 19.30 James Conlon conducts the National Symphony Orchestra in Bruckner's Seventh Symphony and Mozart's Piano Concerto No 20, with soloist David Burgos. Thurs, Fri, Sat and next Tues: Andre Previn conducts Berlioz, Ravel and Rakhmaninov (467 4600)

Opera House 20.00 Washington Opera production of Don Carlo, conducted by Rafael Fruhbeck de Burgos, with a cast including Giacomo Aragall and Nicolai Gheorghiu, also Fri and Sun. Next Mon: opening night of Don Giovanni (467 1600)

Terrace Theater 19.30 Stanitz Quartet of Prague plays string quartets by Mozart, Janacek and Dvorak. Thurs: all-Beethoven piano recital by John O'Connor. Sat: Musicians from Marlboro play chamber music by Boccherini, Dvorak and Adol Busch (467 1800)

Theater Lab 20.00 Shear Madness, a fun-filled mystery set in a hair salon, with audience participation. Daily (416 8400)

ZURICH

Tonhalle 19.30 James Loughran conducts the Tonhalle Orchestra in Beethoven's First Symphony, Hindemith's *Symphonic Metamorphoses* on a Theme of Weber, and Weber's Second Clarinet Concerto, with soloist Paul Meyer. Repeated tomorrow, Thurs and Fri (201 1580)

FINANCIAL TIMES

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Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Tuesday November 12 1991

Après moi
la réforme

ONE of the abiding characteristics of François Mitterrand's 10-year tenure of the Elysée Palace has been his skill in keeping a multiplicity of balls in the air at once. During the last year or so, the juggling act has come very close to foundering. Having fought Gaullism implacably in opposition, and espoused it reverentially in government, Mr Mitterrand has suddenly discovered it is out of date.

The reunification of Germany and the ending of France's diplomatic primacy as a nuclear power in a post-Cold War world have thrown doubt upon fundamental premises of foreign policy. At home, the president's problems have been compounded by the shaky state of the economy, labour unrest and immigrant tensions. After the latest outbreak of farmers' violence, the president himself warned ominously that the republic was in "peril".

Mr Mitterrand thus made his proposals on Sunday night for a package of constitutional reforms - including a prospective cut in the presidential term from seven to five years - from a position of growing vulnerability. The measures, to be put to referendum next year, would give greater powers to the National Assembly and allow aggrieved citizens the right of access to the Constitutional Court. The suggestions are the right response to a feeling that French civic institutions are out of touch with the people.

They also have a bearing on policies over European integration. It is implausible that the Paris government could transfer to the Strasbourg parliament powers (for instance, over the initiation of legislation) which it was unwilling to give to the National Assembly. At least that contradiction may now be resolved.

Ill-defined mixture

The presidential package represents a characteristically ill-defined mixture of Mitterrand's strategy and the tactics of the politician. One important element, the proposed shift to proportional representation, is certain to be criticised by Mr Mitterrand's opponents. The Right believes it will weaken their showing at

the next parliamentary election in spring 1993, where defeat has up to now been staring the socialists in the face. The move indeed looks like an attempt at pre-election gerrymandering similar to that put into effect (and later reversed when the Right won a parliamentary majority) before the general elections in 1986.

Opposition attacks

Otherwise, the president's proposals to trim his own sails will deflect some opposition attacks. Certainly, the initiative has been long in the making. The emperor is stealing his own clothes. A constant Mitterrand theme during his opposition decades was the need to restrain "abuse of power" by the president, given the status of an elected monarch under the fifth republic. Reducing the presidential term was one of the election promises Mr Mitterrand chose to forget. He wrote as long ago as 1972 that lowering the mandate to five years would still give the head of state more time to enact policies than the president of the US. Mrs Simone Vell, the conservative conscience of the nation, recently said that France was about as democratic as Mexico. Attempts - however belated - to reduce the democratic deficit can only be welcomed, even if they do not immediately have the hoped-for effect of reducing Frenchmen's proclivity to take to the streets.

A larger question is how the measures will affect the future of the 15-year old president and that of the Socialist party. In throwing the dice of constitutional reform, Mr Mitterrand is clearly gambling on success in next year's referendum increasing divisiveness within the rivalry-ridden Right, and healing - at least temporarily - the fractiousness of his own party. On Sunday night he was elliptical about whether his current term - due to end in 1995 - would necessarily be shortened if the electorate approved the constitutional amendment. He has however been drawn into admitting that 14 years in office is a long time. Whatever happens, the odds against Mr Mitterrand staying the course until 1995 have lengthened.

Closing Britain's
productivity gap

UNIT labour costs in British manufacturing industry have fallen towards average European levels over the past five years. This achievement must be protected at all costs. The process of European integration will increase pressure for UK wages and benefits to rise to European levels. This should be resisted. Britain's labour productivity has first converged on the best European levels.

The potential for large gains in British manufacturing productivity certainly exists and have been exploited over the past decade. Japan had faster productivity growth than the UK in the 1980s. The productivity gap in manufacturing between the UK and major European countries narrowed for the first time since the second world war.

Yet the gains were slight compared to the task ahead. At current exchange rates, British workers still only produce two-thirds as much per hour as their German counterparts.

Moreover, these productivity gains were largely distributed to workers and shareholders rather than retained for new investment. British manufacturers invested less per employee than those in Germany, France or the US.

Instead, Britain had faster growth of domestic unit labour costs than Germany, France or Italy. Britain's competitiveness was saved by the devaluation of sterling relative to the D-Mark between 1988 and 1987. This D-mark appreciation, combined with Germany's relatively sluggish productivity growth, has eroded Germany's competitive advantage.

Inflationary bias

The ERM means that the inflationary bias within the British labour market will no longer automatically be accommodated by devaluation. Existing UK manufacturers may start without a cost disadvantage compared to those in Germany. But unless UK wage inflation can be held at the average European levels, British competitiveness will quickly erode. Rising UK wages, relative to the European competition, are only consistent with stable unit labour costs to the extent they are matched by economy-wide pro-

ductivity gains. The potential for further relative productivity gains in British industry does exist. Industrial profitability rose in the 1980s but remains low by international standards. That British wages are so much lower than in the rest of Europe means there is an important profit opportunity for any producer that can raise productivity.

Profit opportunities

Whether they can do so depends on the historical source of Britain's current deficiencies. To the extent that UK productivity reflects low educational standards and poor training provision, the process of convergence will be long and slow. Even if the latest education reforms have their desired effect, they will take decades rather than years to show results.

Low capital investment and inefficient management and working practices are easier to rectify. The evidence suggests that restrictive working practices were an important reason for slow productivity growth in the 1970s. In the 1980s the acceleration of productivity was greater among unionised companies as the unions' influence waned.

Overseas investors have proved better able to see and exploit the potential for productivity gains in the 1980s. Foreign-owned companies both invest more and produce more per worker than British owned companies.

The new Japanese car producers have shown the potential for productivity gains and profit opportunities available to new investors. By setting up on a greenfield site and retraining British workers, many of whom were previously unemployed, they have outstripped the competition in terms of productivity.

All the same, wage parity with Germany will remain a distant dream. To catch up Germany by the end of the decade, Britain's annual productivity growth would have to exceed Germany's by 3 percentage points a year, more than in the 1980s. The deficiencies in British education and training systems are too deep-seated for that.

The German economic express of 1990 and 1991 has left two pieces of conventional wisdom behind it on the tracks. One was the assumption that if only the German locomotive gathered enough speed, it would drag the rest of the European economy along with it; another was that the Bundesbank's mere credibility would keep German pay bargaining in line. Both have turned out to be somewhat mythical. Moreover, the Bundesbank's response to the falsity of the second ensures that the locomotive will now slow.

The speed of the German locomotive has been remarkable. During its fastest period, the year to the second quarter of 1990, domestic demand grew by 6.2 per cent, pulling the growth of west German gross national product to a peak of 5.5 per cent in the year to the third quarter of 1990. The German government has, in fact, unwittingly attempted a classic piece of Keynesian pump priming. The fiscal deficit, combined with the direct effects of unification on the money supply and on investment, accelerated the German locomotive to express speeds. Yet the moment when the German economy went faster was almost precisely when other leading economies of the European Community started to slow.

Many "Wessis" grumble freely over the costs of unification. Yet west German economic output expanded by 7 per cent between the time of the breach of the Berlin wall and the second quarter of 1991. Meanwhile, the east German economy collapsed and much of the rest of western Europe has slowed down.

It is not that the growth of German demand did not impart the expected external impetus. The German trade surplus - the source of so many complaints over the years - has disappeared; that with the rest of the EC has fallen from DM50.4bn (£17bn) in the first half of 1989 to DM10.2bn in the first half of 1991. The main cause of this decline has been the increase in German imports; those from the rest of the EC rose by 31 per cent between the first half of 1989 and the first half of 1991.

Economists at American Express Bank argue that additional exports to Germany will make a substantial contribution to the growth of some European economies in 1991. (1) For Belgium and Luxembourg the expected effect is to increase gnp in 1991 by 4.4 percentage points, so turning a decline of 2.5 per cent into an increase of 1.9 per cent (other things being equal). The corresponding increase in gnp for the Netherlands in 1991 is 3.3 percentage points, while for Denmark and Austria it is 1.6 percentage points. These economies are, in effect, almost a part of the German economy. For the larger economies of western Europe, however, which together with Germany will make almost 90 per cent of EC gnp, the impact of increased exports to Germany is considerably smaller. In the case of Italy increased exports to Germany are expected to expand 1991 gnp, again other things being equal, by 0.9 percentage points; for Spain and France the estimated increase is 0.6 percentage points, while for the UK it is only 0.4 percentage points.

Yet the fundamental point is that other things are not equal. The positive effects of increased demand have been more than offset by the negative effects of high German interest rates. Since 1988 German three-month rates of interest have risen by almost 5 percentage points, while long rates have risen by two percentage points, from 8 1/2 per cent to 10 1/2 per cent. Higher German interest rates have not pushed rates higher in the rest of Europe but have prevented their decline, by raising the floor onto which the rest of Europe has been converging. Consequently, they have stopped short-term interest rates in the rest of Europe from responding in the American manner to a decline in economic activity.

Heathrow's
baggage lady

In an unusual display of togetherness, British Airways and BAA, the UK airports operator, have hired the high-flying Kate Jenkins, former MP for North and one of the Tory thinkers who advocated financing this year's cut in poll tax by raising VAT - argues for the replacement of the dole with £100-a-week jobs in environmental and social projects.

Howell's sub-text in Why Not Work? is that Britain would be better off today if Beveridge's 1942 report Social Insurance and Allied Services had been implemented fully. Successive governments "quietly ignored all the restrictions and counterbalances that Beveridge thought necessary to make his programme work," he argues.

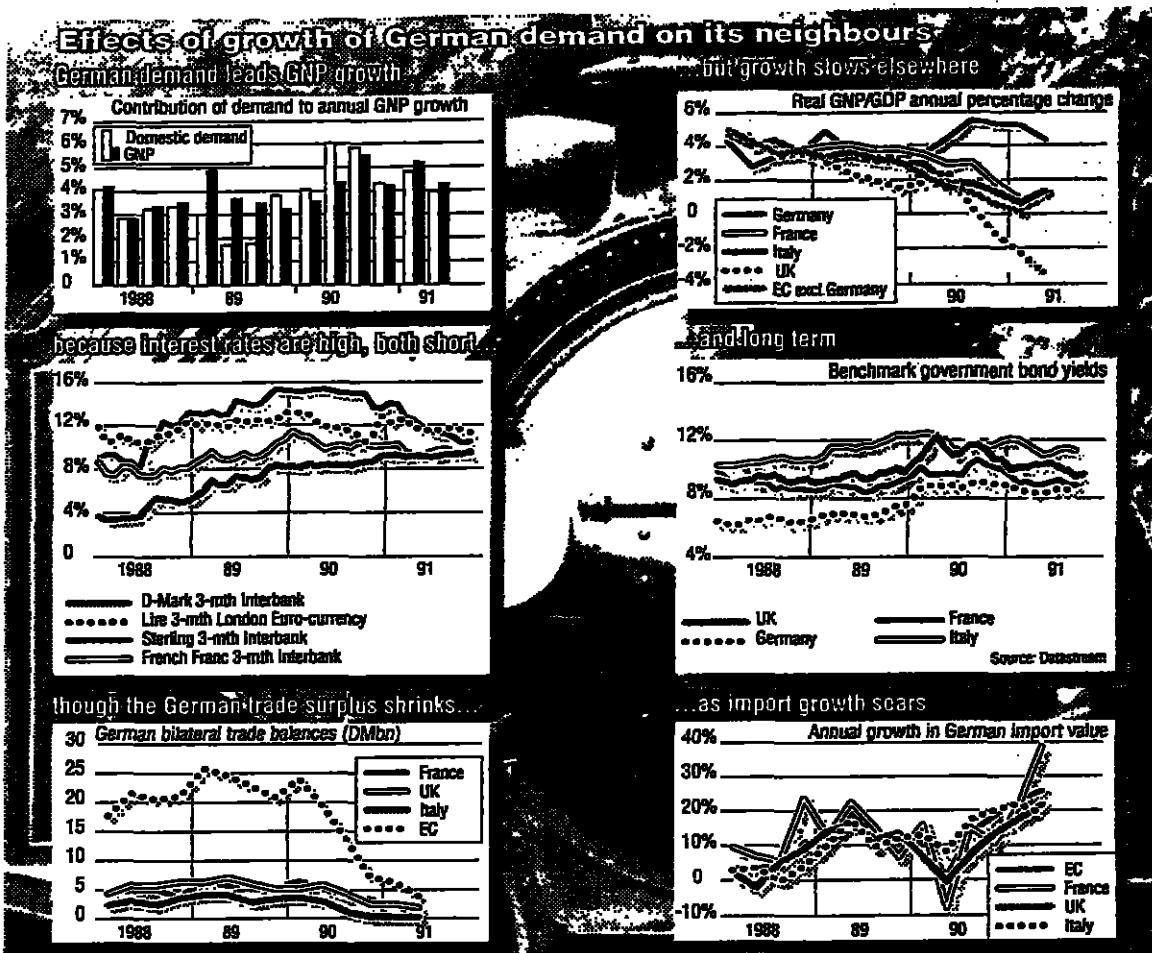
With a quarter of passengers striding through the airport falling into the category of transfers - a proportion that is expected to grow - Heathrow is waking up to the importance of getting this aspect of the business right if it is not to lose out to the fast-growing continental European hubs.

One of BA's long-standing gripes with BAA has been the fact that it has never been able to develop its own hub resulting in passengers and bags embarking on a time-consuming and sometimes perilous journey between terminals one and four. The airline, however, vows the study is not intended to prove a point with BAA, but rather to solve a problem until the controversial fifth terminal is in sight.

Right ideology

Die-hard socialists suggest Labour is ditching its socialist ideology and adopting more right-wing policies. But is the right wing of the Conservative party busily heading leftwards? The Adam Smith Institute has just published a booklet on the subject of unemployment.

The Bundesbank's response to pay inflation and high fiscal deficits makes Germany an uncomfortable neighbour, says Martin Wolf

German express
slows down

Members of the exchange rate mechanism, other than Germany, pay a premium in short term interest rates, with the real effects of those premiums often greatest for countries with the best inflation performance. Thus, if consumer price indices are used as rough and ready deflators, the German short-term real rate of interest is currently about 5 per cent, as is the Italian; but the French about 6 per cent and the British about 7 per cent. These high interest rates make sense for the German economy, but less so for its partners.

The significant external consequence of German unification has, therefore, been via rates of interest. This suggests that the EC's money and capital markets are more integrated than the markets for goods and services. The demand locomotive has not been firmly attached to the train. Will the adverse effects of German unification on interest rates diminish now that growth of the German economy is expected to slow to a consensus level of about 2 per cent between 1991 and 1993? The answer is "no", at least in the short to medium term. The explanation for this unhappy outlook is the combination of loose fiscal policy and tight monetary policy, with which Germany has responded to the challenge of unification so far.

The historical parallel is evident: it is with Reaganomics in the early 1980s. Then, as now in Germany, high

interest rates brought in resources from abroad; then, as now in Germany, foreigners suffered most of the short-term pain and domestic residents received most of the short-term gain. The longer term fiscal problems of the US should, however, serve as a warning to German politicians.

The Bundesbank is determined not to allow fiscal deficits to be monetised. Accordingly, the target monetary corridor was lowered to 3-5 per cent, following the annual review in

July, from the earlier 4-6 per cent. Set against the 9.1 per cent increase in nominal gnp in the year to the second quarter of 1991, this looks like a very tight target.

The fiscal worry is one of the two main points the Bundesbank has been making. The other concerns wages. As the Bundesbank said in its Monthly Review of September: "The outcome of this year's wage round constitutes a major cost burden for enterprises, which they are trying to pass on to consumers." But "it is

essential for the present upturn in prices in Germany not to result in an increase in longer term inflationary expectations".

An irresistible force - the fiscal and pay response to German unification - is meeting an immovable object - the Bundesbank's monetary rectitude. The latter is not attempting to reverse price increases that have already occurred. But it intends to return to its long-term target rate of inflation of 2 per cent, though it recognises that this will be impossible in the near future.

Yet German wages have been rising at close to an annual rate of 7 per cent in 1991. This is far above a level consistent with the Bundesbank's target for inflation, which merely confirms that negotiators have paid little attention to that target. The autumn report from the five German economic institutes suggests that pay settlements need to increase by 4 per cent from now on. But this does not seem probable, especially after the 6.7 per cent pay bargain between Volkswagen and its 128,000 German workers.

Unfortunately, this bargain coincided with a declaration from Mr Otmazl, a Bundesbank director, that the central bank must send an "unmistakeable signal that the self-feeding process of price and wage increases can under no circumstances continue". But workers' representatives have proved far more receptive

to such indicators as spiralling rents, 10 per cent rises in the price of beer and an extra 20 pfennigs on a packet of king-size cigarettes.

They have also been quick to roll the impact of a 1 per cent increase in value-added tax into their demands - even though that is not due to take effect until the end of next year. They have responded with pay demands to match those which did them far too proud last year: the IG-Metall steel industry section recently voted to put in a 10.5 per cent claim, bank workers asked for 12 per cent and public sector employees asked for a two-figure increase. All this is precisely what the Bundesbank fears: that the government's attempts to pay for unification through higher taxes, instead of lower spending in the west, will exacerbate the wage-price spiral.

As in any other country, German wages respond to the short-term demand for labour: just like any other central bank, the Bundesbank has to win its spurs every year. If anything, it has to try harder now, after the year in which its judgment on monetary unification was seen to be ignored. If pay inflation does not moderate, high short-term interest rates will be maintained until it does. Meanwhile, the rest of Europe will lose the benefit of rapid growth of German demand, but will still have to confront high German short term interest rates. Nor is 2 per cent growth of west German gnp the lowest expectation. Dresdner Bank, for example, forecasts growth of gnp between 1991 and 1992 at 1.6 per cent.

Slower growth should, in time, lower inflation and allow lower short-term interest rates. But the German fiscal position is a worry for the longer term as well, since it may keep long-term real rates of interest high indefinitely.

Naturally, the German government does not concur. It forecasts a smoothly declining path for the fiscal deficit, from more than 5 per cent of gnp this year, down to 2 1/2 per cent in 1995. But there are two worries: the first is the role to be paid by increased indirect taxes, which tend to exacerbate pay pressures; the second is that Ms Rosy Scenario now has a home in Germany, too. Pay is rising rapidly in eastern Germany, while any east German recovery is very fragile, as is emphasised by the autumn report from the five research institutes. The cost of bringing about the growth of the east German economy to which the government is committed could be far larger than is even now admitted.

Economists at the Institut der Deutschen Wirtschaft (a Cologne-based think tank) argue that the fiscal deficit is more likely to be 4 per cent in 1995 than 2 1/2 per cent. A forthcoming analysis from Shearson Lehman Brothers in London agrees that German government forecasts are at the lower end of the range of feasible outcomes. If the pessimists are right, long-term rates of interest in Germany - and so in Europe - are likely to remain high for the indefinite future. Germany could even fail to meet suggested criteria for entry into the EC's economic and monetary union (a fiscal deficit of 3 per cent of gnp and a ratio of public sector debt to gnp of 60 per cent).

The Bundesbank is walking along a knife edge - and so is the German economy. Too much tightening will make the fiscal problem worse and dash hopes of east German recovery; too little and the Bundesbank's reputation evaporates. Either way the rest of Europe is in for an uncomfortable time. Many might be tempted to push for a looser German monetary policy. But the focus should, instead, be on the fiscal policies of the German government at all levels. It is these that are unequally shared. Yet whatever the fine words in Maastricht, the rest of Europe will have to live with them for quite a while longer.

1 THE AMEX Bank Review, October 1 1991.

OBSERVER



"The television won't switch off"

Bowing out

Events are moving so quickly in South Africa that it is easy to overlook the symbolic significance of Anglo American's sale of most of its stake in Gencor, its rival South African mining-house.

Twenty-five years ago there was little Afrikaner involvement in either mining or business. Afrikaners gravitated towards politics, the civil service and farming while Big Business was dominated by English speakers. This divide fuelled anti-business and anti-English sentiment among Afrikaners and was fanned by the prime minister, Hendrik Verwoerd. In a bid to reduce the tensions, Anglo American's Harry Oppenheimer decided to help the Afrikaners get a proper foothold in the mining business.

In 1963 Anglo American, which dominated the industry, joined forces with Federale Mynbou, the fledgling Afrikaner mining house, to take control of General Mining. Two years later Oppenheimer allowed

deputies used to say that when they saw Gencor moving on a staircase they could not work out whether he was going up or coming down.

Fair bet

Yesterday's Government white paper on the progress of the 56 executive agencies promises that weather forecasts will be more accurate.

The Met Office claims that 84 per cent of the national 24-hour forecasts broadcast by BBC Radio 4 at 17.15 have proved accurate in the first year of its existence as an agency. And over the next five years, the weatherpeople have sworn to reduce errors associated with 48-hour forecasting by 15 per cent.

Whatever next? The trains running on time?

Financial cycle

What do you do with a few million pounds that nobody wants? Every week the Royal Bank of Scotland burns millions and millions of old pound notes that are no longer usable. However, because of environmental considerations and shortage of space for the necessary equipment in its new administrative headquarters, it will soon have to put an end to this costly practice. The new plan is to reduce the old notes to tiny granules.

Only problem is what to do with the granules? Among the more novel suggestions from companies interested in recycling possibilities is to use the granules as bedding material for horses. It gives a new meaning to the term stable currency.

Makes sense

What's the difference between an economist and a businessman? The economist knows how things work, but they don't. The businessman doesn't know how things work. But they do.

FINANCIAL TIMES CONFERENCE

WORLD ELECTRICITY

London, 14 & 15 November
Contributors from Europe, North America and Japan will assess how the utilities are responding to the challenge of increased competition, growing environmental pressures and meeting demands for greater energy efficiency. Future fuel sources will also be analysed.

THE PETROCHEMICALS INDUSTRY - PROSPECTS FOR THE 90s

London, 19 & 20 November
Sir Darys Henderson, ICI; Andrew Butler, Dow Europe; John Aikit, Exxon Chemical International and Doug Campbell, BP Chemicals are among the speakers who will address the third FT petrochemical conference and will examine the challenges facing the industry in the 1990s.

SPAIN'S ROLE IN THE NEW EUROPE

Madrid, 20 & 21 November
Major issues to be discussed include the new European economic order, the impact of moving towards economic and monetary union on Europe's competitiveness to be reviewed by D. Carlos Sánchez and M. Jean-Claude Trichet; the growing regional imbalances and the use of structural funds to be assessed by D. José Pujol, Mr Eneko Landaburu and D. Guillermo de la Dehesa; industry and the environment to be addressed by J. José Borrell.

MANAGING FINANCIAL RISKS

London - 26 & 27 November 1991
30 & 31 March 1992
The workshop is an intensive, practical course aimed at those who wish to understand the principles and practices of financial risk management. It combines comprehensive technical reference material with an interactive format with case studies and worked examples.

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London, 2 & 3 December
This topical conference will debate changes in the provision and purchasing of health care and assess the impact of the NHS reforms on the private sector. Developments in medical insurance, the funding of long-term care and the value of employee health programmes will also be reviewed. The Rt Hon William Whitelaw, MP, Secretary of State for Health will be the keynote speaker.

WORLD TELECOMMUNICATIONS

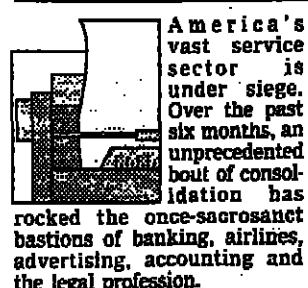
London, 4 & 5 December
This annual conference, the twelfth in the FT series, will look at the three interwoven trends which are changing the shape of the world telecommunications industry - privatisation, deregulation and globalisation.

All enquiries should be addressed to: Financial Times Conference Organisation, 125 Jemyn Street, London SW1T 4UJ. Tel: 071-825 2323 (24 hour answering service), Telex: 27347 FTCONF G, Fax: 071-825 2125

PERSONAL VIEW

Why US services need a shake-out

By Stephen S Roach



America's vast service sector is under siege. Over the past six months, an unprecedented bout of consolidation has rocked the once-sacrosanct bastions of banking, airlines, advertising, accounting and the legal profession.

The problem is not the temporary impacts of recession. The weak and strong alike are facing the imperatives of a new wave of restructuring — one that is now crashing down on key players such as BankAmerica, Pan Am, American International Group, Post-Net, American Express, and Skadden Arps. And it is only just beginning.

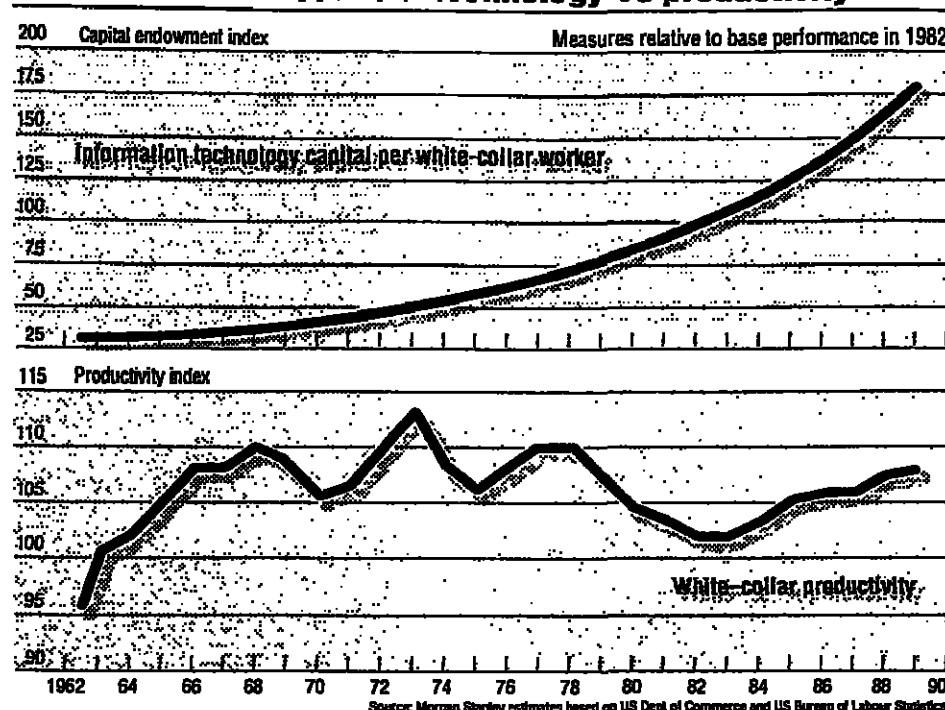
For the US economy, there is a grim sense of déjà vu. During the 1980s, "restructuring" became the mantra for Smokestack America. At the same time, excesses were mounting in services. In the past decade the sector added nearly 20m jobs and spent \$300bn on computers, telecommunications equipment, and other forms of information technology. This produced a doubling of the technology available to the average white-collar worker in the service sector.

Unfortunately, this headlong rush into the Information Age had one serious flaw: an abysmal failure on the productivity front. Indeed, service-sector productivity came to a virtual standstill in the late 1970s and has shed only paltry gains ever since (see accompanying chart).

This seemingly paradoxical result has puzzled many. Information technology was supposed to be the black magic of post-industrial America. And yet the service sector, the primary user of these tools — is reeling. The machine is not the problem. Few can doubt the staggering breakthroughs of miniaturisation, computational speed, and price. The disappointing paybacks from massive investments in information technology are, instead, traceable largely to managerial ineptitude and complacency.

Significantly, services have seriously underestimated the total costs of their technology buying binge. The more than \$100bn this sector now spends annually on technology hardware is only the tip of the iceberg. Software adds to the bill, as do research and development expenses for the development of new control and analytical systems. There are also the outlays associated with an extensive professional support staff, as well as the demanding requirements of an increasingly shorter product-replace-

US SERVICES: Investment technology Vs productivity



Source: Morgan Stanley estimates based on US Dept of Commerce and US Bureau of Labor Statistics

ment cycle. Moreover, services have failed to exploit the labour-saving potential of information technology. This is especially true in the back office. Indeed, the ratio of clerical and administrative workers to managers and professionals — about 1 to 1.5 — changed little in the service sector during the 1980s. If information technology were truly automating the back offices of service companies, this ratio should have fallen.

Services have been reluctant to follow one of the time-worn axioms of productivity enhancement — trading workers for machines. Fortunately, that is now starting to change. Each of the huge banking mergers of this year entails the outright elimination of redundant back office capacity.

Additionally, the productivity paybacks from technology applications in the front office have been disappointing. The

seemingly attractive concept of the fully networked office environment rings hollow. Technology connects machines but has done little to instill productive synergy among people. Electronic messages may flow smoothly, but creative high-value-added applications are still lacking. And yet it is precisely those types of innovative, idea-driven breakthroughs that lie at the heart of America's long history of productivity enhancement.

All this is not to say that information technology has been a total flop in the service sector. There have been sparkling successes with applications related to specific transactions. Examples include cheque clearing, securities trading, automated shipping systems, and airlines' pricing and reservation management systems. Unfortunately, these applications have been the exception and not the rule.

The real rub of America's technology paradox is an ominous transformation of the service sector's cost structure. Over most of its history, services were the quintessential variable cost producer. Their main assets were workers. At the end of the day, these assets always went out the door door — subject to dismissal if business conditions toughened. While workers can still be hired and fired, service companies now carry an extra layer of costs in the form of a flourishing technology infrastructure. Unwittingly, services have moved from a variable cost to a fixed-cost regime, sacrificing flexibility without gaining any concomitant productivity benefits.

Amazingly enough, they got away with it in the 1980s. While trapped in a quagmire of low productivity, services never really felt any need to change. The reason: the sector

was sheltered from competition. Shielded by regulation and confronted by few foreign competitors, services were not held accountable for their inefficiencies.

Those days are gone forever. A new competition has burst forth in America's service sector. The government has lifted its regulatory shackles, thereby lowering barriers to entry in many service industries, including airlines, trucking, telecommunications, cable television, and finance. Moreover, there has been a surge of foreign direct investment in an equally broad array of US service industries — allowing foreign players to join the battle for market share.

Competition is the great equaliser that ultimately demands efficiency as the price for survival. And for services, ill-equipped to meet these new competitive pressures, restructuring is the only answer. But the service sector must be careful. The risk is following the script of the manufacturing experience of the 1980s — becoming overly fixated on cost-cutting. That could lead to a "hollowing" or excess shrinkage of the service sector, sacrificing long-term competitive opportunities just to secure the transitory benefits of short-term efficiencies.

What can be done? For starters new accounting tools are essential — giving services better ways to gauge the value-added returns of both white-collar hiring and technology acquisition. Managers can then begin to "outsource" or purchase from third-party vendors, a variety of low-value-added functions such as data processing. For those costs that cannot be shed, expansion will be required to benefit from economies of scale. This will lead to the globalisation of services — facilitated by a new wave of strategic alliances, cross-ownership arrangements, and mergers and acquisitions.

In the end, it will be up to managers to discover their own unique productivity recipe. The service company that responds to heightened competition will look very different from its predecessors. Strategically focused, it will have an efficient delivery system, a high-quality product, and a flexible cost structure. And the successful service company of the 1990s will crack the great mystique of the Information Age — using information technology as the ultimate tool of white-collar productivity leverage. Such a changemongers seem daunting, but nothing short of America's future economic prosperity is at stake.

The author is principal and senior economist at Morgan Stanley and Co, New York

Joe Rogaly Maastricht labours



Anti-Europeans who think that they will best serve their cause by encouraging people to vote against the government are chumps. I wonder if any of them understand current Labour party thinking on Europe.

Let me enlighten those who do not. Insofar as the European Commission promotes big government with a social democratic flavour it is Labour's dream machine. If Mr Neil Kinnock were to win the next election he would enter No 10 Downing Street burdened by party commitments to move the federal mechanism within the European Community several ratchets further forward. We may be fated to move in that direction anyway but for those who do not like it the strategy of Conservative hard-kick is absurd. For from the point of view of anti-Europeans, Labour could be a softer touch for the blandishments of federalists than is the prime minister, Mr John Major.

Mr David Martin, Labour member of the European Parliament for the Lothians, provides evidence to this effect. He is not the official Labour spokesman on EC affairs — that is the hard-nosed Mr George Robertson — nor is he especially close to the Labour leader, Mr Kinnock. He is, nevertheless, the Strasbourg parliament's main rapporteur on political union, and author of a 1988 Fabian pamphlet on "a Left agenda for Europe", much of which he says has since become Labour policy. Now, he argues, the agenda put forward in his official reports setting out the wish-lists of the European Parliament's institutional committee has been adopted almost entirely by Labour.

That agenda includes several items which the government is attempting to modify or veto during the current negotiations. Majority voting on social policy is one. This very day our Mr Douglas Hurd is arguing against the social charter in a grey hotel in a windswept Dutch seaside resort. We do not pay him enough, not to sit for 48 hours picking over clauses in the

some conclave with the foreign ministers of the other 11 EC countries. A common foreign and security policy is another EC idea bought by Labour; Mr Hurd will be having his say on that, too. Mr Martin's list also includes greater influence for EC regions, the right for the Strasbourg parliament to initiate legislation and the power of co-decision between the European Parliament and the council of ministers. (On the latter point, the latest Dutch draft tactfully omits the word "co-decision" and refers to "article 188 (b) procedures". I smell an elaborate compromise.)

The proposal British ministers feel most emotional about is the extension of Community competence over matters of immigration and asylum; in Whitehall's view foreigners are not to be trusted to keep

Labour could be a softer touch for the blandishments of federalists than is the prime minister

the British Isles safe. The same applies to the pursuit of drug traffickers. Mr Hurd remembers his experience in co-operation on these affairs through the Trevi groups' intergovernmental meetings. He wants to keep that arrangement. Labour does not propose to be caught out: it argues that as an island we need border controls.

To make his general case, Mr Martin cites Labour's policy review documents plus composite motion No 50 from the recent party conference. He will be aware that in political life the written word is there to be distorted and where necessary forgotten. The first thought of a Labour government would be to sort out such small print and cast aside paragraphs that do not suit. The weeding-out may come sooner, in the election manifesto. Thus we need not follow Mr Martin's argument to the last comma. The thrust of Labour's policy is, however, to keep the party at least one inch ahead of the government, on the pro-EC union side of the road.

It will not be possible to clarify this analysis by listening to the speeches in next week's Westminster debate on the EC. With less than four weeks to go to Maastricht everything said by governments from now on must be regarded as part of the negotiations; everything said by British politicians as part of the election campaign. This includes the present series of noises from Whitehall, to the effect that the meeting between Mr John Major and Mr Helmut Kohl on Sunday has begun to move the discussions in a British direction. There may be signals of the opposite kind before the game is over.

For Mr Major has the difficult task of speaking with triple-forked tongue. He must be negotiator abroad and politician at home. He needs to convince the Germans and the French and the rest that there are conditions away from which he would walk, while yet preparing the ground for parliamentary acclaim for the deal he hopes to persuade his party to accept. As a third objective, his speeches must also prepare the basically pro-European British electorate for the possibility that no agreement it would consider reasonable can be reached.

The point he needs to make is that it will not be the end of the world if Maastricht fails. Say the assembled heads of government agree a new treaty on economic and monetary union but Britain remains dissatisfied with the political-union draft. In theory everything collapses, because the Germans will not have the monetary treaty without its political counterpart. In practice the process is most unlikely to end like that, or, indeed, to end at all. That is not the European way. Mr Kohl would feel that his warm embrace had been spurned. Mr Delors might growl and others may grumble, but any breakdown at Maastricht need not be terminal. The Dutch final draft could stay on the table, to be further negotiated at a Maastricht II before Christmas, or under the Portuguese presidency early next year. By that time the election would be so close that perhaps even Mrs Margaret Thatcher would feel obliged to keep silent.

LETTERS

Recognition of supervisor's role overdue

From Mr Q J F Baer and Mr I P Clarkson

Sir, The recent report published by the NEDC on "What makes a supervisor world class" has regrettably drawn only limited comment ("Poor training for supervisors criticised", October 23).

It is entirely welcome that a report has been published which addresses one of the fundamental problems of UK manufacturing. For far too long, too little attention has been focused on the important and critical role of the supervisors.

We work with management and supervision implementing profitability improvement programmes within a range of medium to large sized manufacturing companies and continually face the problem of supervisors ill equipped to carry out their role. That is due to limited training, the poor leadership and example of middle management, who too often have a role that is ill defined and too generalised.

The report rightly recognises that for industry to remain competitive it will be necessary for supervisors to have a higher level of technical and management competence than they possess today. It fails to emphasise the degree to which supervision is the key to improvements in performance.

That has been recognised by the most efficient manufacturers in the world who have adopted systems and techniques which devolve power and responsibility for production to the shop floor. Supervision and the workforce in general have, for them, become the prime drivers of continuous improvement and quality.

If we fail to provide the training and systems to upgrade the quality of our supervisors, it is certain that we will fall further behind relative to the competition.

I fear, however, that far more attention will be paid to the current fashionable solutions being marketed by manufacturing gurus and consultants which will, like their predecessors, come to nothing. Q J F Baer, chairman, I P Clarkson, chief executive, Peter Chadwick, Quadrant House, Kew Road, Richmond, Surrey

Confusion cloaks bishop and Mammon

From Mr David Grenier

Sir, Your report of October 25 ("Bishop loses to Mammon over £3bn portfolio") and the Lex comment of the same day fail to do justice to the complex issues concerning ethical investment. These issues are of major concern to trustees of charities and pension funds as well as to professional investment managers.

Now that these issues are in the public arena, as a result of the High Court ruling sought by the Bishop of Oxford, it is critical for discussion to take place on an informed basis.

One area that needs closer examination is the implicit assumption, by some proponents of ethical investment, that it can produce comparable returns to non-ethical investment. This suggests the choice between God and Mammon may be relatively painless.

There is a suggestion of this in the views of the Bishop of Oxford (Church Times, March 30 1990). In his words, "Ethical investment is an idea whose time has come; there are now a

number of ethical investment trusts, all of whom are doing well (my italics)."

The same sentiment is reflected in the Lex comment that "experience to date suggests that ethical funds can outperform despite the restrictions imposed upon them."

The evidence supporting these views has not been quantified. Although the recent FT Quarterly Review of Personal Finance carried a table apparently showing that the average ethical unit trust has produced superior returns to the average unit trust over one and three years, the text of the article showed this result was only achieved as a result of the high returns on one small unit trust representing less than 0.5 per cent of the total assets of the ethical unit trusts reviewed. Median as opposed to average return would have shown a different picture.

More analysis needs to be done to establish whether or not there is a direct correlation between the degree of restriction imposed by an ethical

mandate and the returns achieved on assets. Certainly, one fund quoted as having restricted from investing in 87 of the 100 constituents of the FTSE Index has reflected this degree of restriction in poor investment returns.

Our own experience in the specialist area of portfolio management for charities suggests that trustees have widely differing interpretations of what constitutes ethical investment. The trade-offs can be considerable, and our own view is that trustees need to be aware that the returns achieved from ethical investment may well be less, and in some cases significantly less, than the returns available from the market as a whole. This is an issue that needs to be faced realistically; a case perhaps for a wealth warning on the package.

David Grenier, chief executive, Independent Investment Management, Warford Court, Thorpington Street, London

Resignation signposts British export difficulties

From Mr P Hills

Sir, The resignation of Mr Malcolm Stephens, chief executive of the Export Credit Guarantee Department (ECGD), is the clearest evidence to emerge so far of how unpopular and indeed unwelcome current government policy is towards the operation of the project division of that organisation.

The introduction of the Portfolio Management System (PMS) for the ECGD has led to a number of new problems for hard pressed British exporters.

Under PMS there is now greater disparity between the ECGD premium charges and

those of British exporters' principal competitors.

The increased premium charges, combined with the imposition of greater restriction on cover for certain overseas markets where British exporters have traditionally been successful, must surely sound the death knell for the ECGD's project division, as well as for a number of British exporting industries.

Is it any surprise therefore that the chancellor is able to announce in his autumn statement that the trade deficit for 1992 is likely to reach £9.5bn, almost a 50 per cent increase on the current projected trade

deficit for 1991?

I must congratulate Mr Stephens for being a man of high principle who was, I am sure, not prepared to support government policy which he felt was harmful to British exporting industry and indeed to the British economy.

Philip Hills, head of trade finance, Midland Bank, 110 Cannon Street, EC4

Fax service
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House prices are at last falling to realistic levels

From I J Kenna

Sir, I note from the Financial Times ("Societies see no signs of revival in housing", November 6) that no revival in house prices is anticipated.

In times past, a house purchaser bought far more than bricks, mortar and land with his money.

High tax relief, low real interest rates, the scarcity factor, life assurance premium

relief on an endowment mortgage and the prospect of an easy inflationary gain: these factors were never properly costed but they were all there.

Now they no longer exist and will probably never exist again.

Their value could add up to half the purchase price of a house.

All the purchaser gets now,

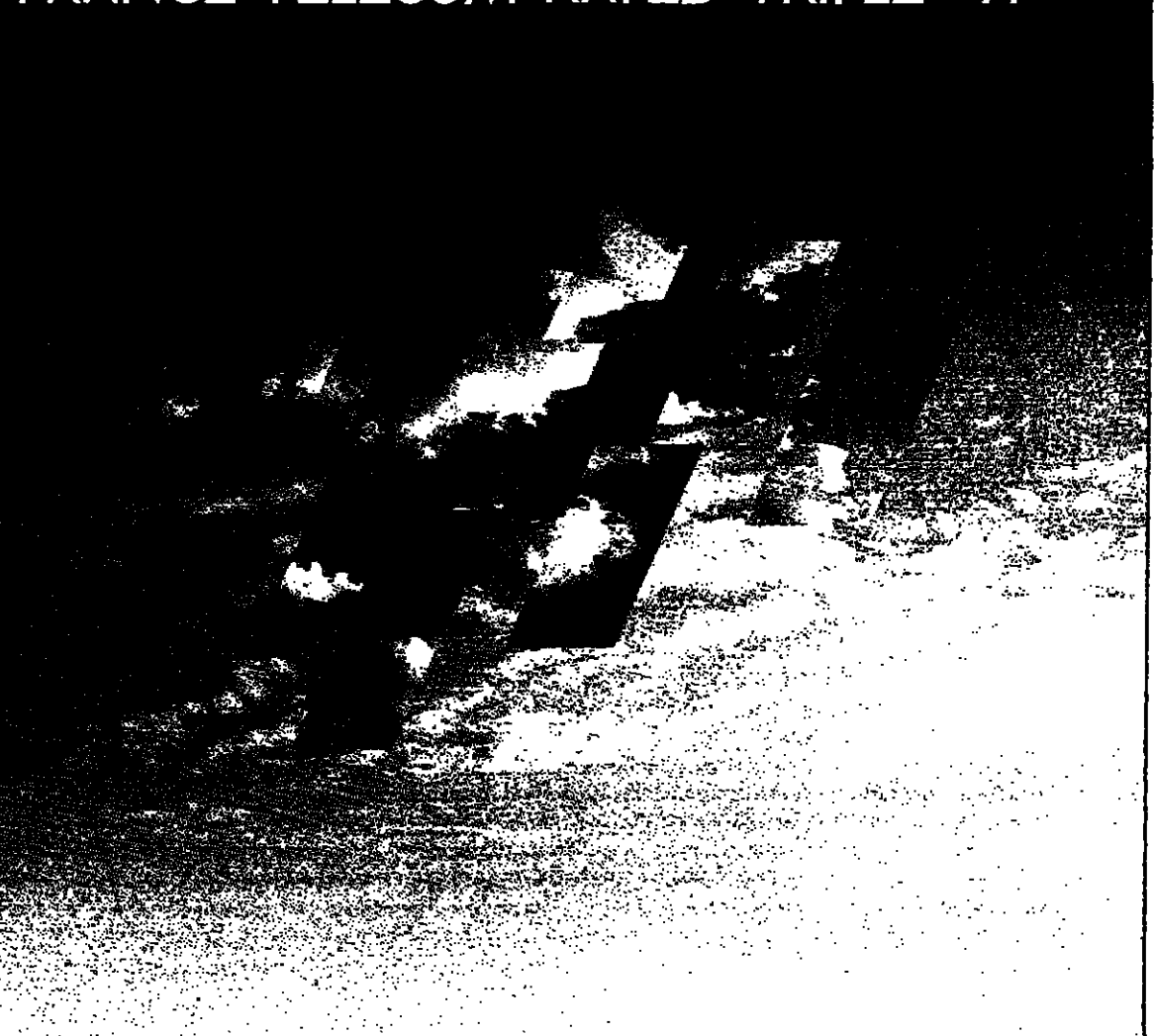
apart from a small tax relief element, is bricks, mortar, and land.

House prices, therefore, are merely falling to realistic levels.

When they have reached those levels, purchasers will reappear.

I J Kenna, 72 Compton Street, London EC1

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FINANCIAL TIMES

Tuesday November 12 1991

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Yugoslav federal troops evacuate one of more than 30 people who have spent the past three months in shelters in the besieged town of Vukovar

EC to pull monitors out of Dubrovnik

By Judy Dempsey, East Europe Correspondent

EUROPEAN Community monitors have decided to pull out of the Yugoslav city of Dubrovnik because it has become too dangerous to stay, an EC official said yesterday.

"We are concerned about their safety. We plan to withdraw them at the first possible opportunity," said Mr Ed Koestel, the EC's spokesman in Zagreb, the capital of Croatia.

The decision was taken following three days of heavy

bombardment by the Serb-dominated federal army of the medieval city on the Adriatic coast, and also the town of Vukovar, in Slavonia, eastern Croatia, which has been under siege for the past 11 weeks.

Croatian radio said 22 boats were sunk in the harbour around Dubrovnik and 17 hotels damaged. Belgrade radio reported that two boats were sunk as they tried to break through a naval blockade of

the port. According to Croatian radio, more than 50 people died in fighting throughout the republic over the past few days.

Despite the pull-out from Dubrovnik, the monitors will remain in Croatia as long as the EC-sponsored peace conference continues, an official said.

The conference, despite its failure to impose 12 ceasefires, will run parallel with the EC's decision last Friday to impose

trade sanctions across Yugoslavia. The US joined the trade embargo at the weekend.

The Swedish government said yesterday it would impose economic sanctions from tomorrow, and urged the European Free Trade Association (Efta), of which it is a member, to break off all co-operation with Yugoslavia. The group of 24 western industrialised countries also decided to suspend aid to Yugoslavia. In New

York, behind the scenes consultations are taking place, with the possibility of submitting a resolution to the United Nations Security Council over the next few days.

However, it is understood that Serbia's call for a UN peace-keeping force to be sent to Croatia, will not, for the moment, be seriously considered. The appeal has been seen as an attempt to forestall a UN oil embargo.

Frayed nerves at British Steel

Sir Robert Scholey is not known for dithering. But his reluctance to learn from the Bank of England's strictures on uncovered dividends has condemned him to the worst of both sides of the short-termism controversy. By passing its interim dividend, British Steel could have saved £115m in cash. But despite the maintained payment, Sir Robert's warning about the final dividend provoked a 20 per cent fall in the company's market value.

British Steel's problem is compounded because it is traditionally seen as a yield stock. It takes courage to disrupt the dividend flow when that would undermine the whole rationale for investors. In the longer term, however, there can never be any real sense in paying dividends out of capital unless the objective is to wind down the business.

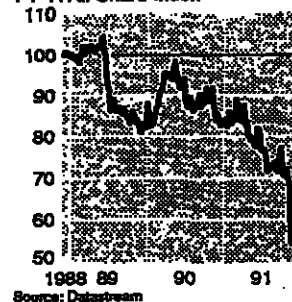
Investors whose main priority is yield would do better buying bonds. Utilities may be appropriately valued in this way, but British Steel is certainly not one of those. Its high operational gearing - whereby a 9 per cent fall in first half turnover allowed only a 1 per cent fall in operating costs - makes it far too vulnerable to the vagaries of the cycle. In theory it should now be a recovery play, though the trouble is that structural overcapacity in Europe and the prospective downturn in Germany will delay its earnings rebound.

The logic of the Governor's argument would now require British Steel to pass its final dividend altogether. Where that would leave the share price is anybody's guess. Assuming, however, that investors still demand a yield of roughly twice the market average, last night's 91½p close implies they are looking for a 30 p final. That would confine the full-year cut in net payout to a mere 31 per cent. Not very easy to justify after what is condemned to be a thoroughly dismal result.

FT-SE Index: 2,554.9 (-4.1)

British Steel

Share price relative to the FT-A All-Share Index



Source: Datastream

as opposed to charging a fixed price through the cartel. Hence the logic of a deal which will give Northern Foods as buyer some 26 per cent of the UK market for milk distribution and 30 per cent of the markets for yoghurt and cream.

Assuming the competition authorities will accept this, the purchase looks like a further instance of Northern returning to its roots. Its reputation in the 1970s was built on the efficiency of its liquid milk operation and avoidance of commodity dairy products such as cheese and butter. Assuming operating profits of £40m for the hits it proposes to buy, a price of £350m would produce an earnings multiple of around 13, not far from Northern's own. Logic also suggests the milk would be sold in the south

That would leave GrandMet with the cheese, butter and Irish bits of Express still to sell, perhaps for a further £150m. GrandMet's case for getting rid of Express is clear - that its business is in branded goods with internal potential. The fact that a huge chunk of its capital is tied up in a half share of an unbranded UK pub empire is a little awkward. But GrandMet has always been stronger on deal-making than strategy, and it is in any case not hard to imagine the pubs being sold off at a later date.

BT sale
Whatever the criticisms of the UK privatisation programme, the government is in one respect showing the way to the private sector. By employing its immense clout as vendor in the BT secondary sale, it has not only bypassed the underwriting cartel for domestic equity issues. It has also introduced the technique of

stabilising the price in the after-market, something familiar from international bond and equity offerings. It is a moot point whether stabilisation, a source of long-standing controversy in the Eurobond market, is the best alternative to underwriting. But from the point of view of companies seeking funds, the more choice the better.

Generators

The row between the electricity generators and their customers over prices in the electricity pool looks like conventional commercial haggling, even if the picture is obscured by a canny appeal to the regulator. The customers may think they occupy the high ground, but wholesale prices were always likely to follow last year's flotation. Arguably, those companies which neglected to hedge their bets by signing fixed-price contracts have limited recourse. The regulator is already looking for signs of monopoly abuse of the pool mechanism. It is hard to see how he can go much further.

Smaller companies

The UK stock market may have predicted five out of the last three recessions, but its instinct for calling the turn is more often right than wrong. Hence anecdotal evidence of increasing institutional interest in smaller UK companies deserves to be taken seriously. Experience of previous cycles shows the time to invest in businesses with a stock market capitalisation of £150m or less is just before the economy moves out of recession.

Smaller companies, as measured by the Hoare Govett Index, underperformed the market by a significant margin in 1989 and 1990, the first time this had happened in two consecutive years since the mid 1960s. So far in 1991 they have outperformed the FT-A All-Share by 2 per cent, with a notable 7 per cent relative gain in the last three months. There should be more to follow, especially from well-managed companies which have cut their overheads to the bone. Small company ratings, moreover, are still at a discount to the leaders. The problem for those who expect a repeat of the early 1980s is that boardroom statements remain gloomy and the political and economic cycles are out of joint. As always with small companies, patience will be called for.

Conservative opposition parties accuse president of electoral trickery Mitterrand reform plans attacked

By Ian Davidson in Paris

PRESIDENT François Mitterrand's plans for wide-ranging reforms to the French constitution have been attacked by the main conservative opposition parties.

Many leading conservative politicians accused him of resorting to electoral trickery as a devious means of getting the governing Socialist party out of trouble.

Two of the possible Mitterrand reforms, a shortening of the presidential term from seven to five years and a strengthening of the role of the parliament, have long been advocated by leading politi-

cians on both sides of the political spectrum. But several conservative spokesmen yesterday complained that President Mitterrand was only now proposing these reforms when his government was in difficulty in the opinion polls, whereas he could have put them forward at any time in the past 10 years.

"The key to this initiative," said Mr François Léotard of the Republican Party, "is that, in order to prevent a change in the parliamentary majority in 1993, they want to change the constitution. That is a new ruse."

Mr Philip de Villiers, the rising rightwing Gaullist, described President Mitterrand as "an old trickster", and Mr François Bayrou, secretary-general of the centre-right UDF grouping, said: "It is shocking to see the president of the Republic present his own errors as defects in the constitution."

Socialist party spokesmen formally welcomed the constitutional reform initiative. But the party is divided over a proposal to revert to an element of proportional representation for the 1993 legislative elections. Mr Michel Rocard, the former

prime minister, and a leading candidate to succeed President Mitterrand, resigned in 1985 on the previous occasion when President Mitterrand changed the voting system to proportional representation. The system has since been changed back to majority voting.

Mr Antoine Wauchet, the leader of the Green party, which would be likely to benefit most from a shift to proportional voting, welcomed the proposed changes.

Mitterrand aims to give opposition the slip, Page 4

Germany to slash coal production

By Christopher Parkes in Bonn

GERMANY is to reduce its hard coal production by more than 20 per cent by the end of the decade, cut subsidised supplies to power stations and steelworks and slash the industry's workforce by 30,000.

The cuts, agreed in Bonn at a five-hour meeting between federal and state ministers, mine owners, electricity companies and unions yesterday will reduce output from 70m tonnes a year now to less than 55m tonnes and leave fewer than 100,000 people employed in the industry.

Coal is the mainstay of German energy policy, accounting for 27 per cent of primary energy consumption in the west and 69 per cent in the east. Restructuring the coal industry is one of the main aims of the new overall energy policy for Germany, expected to be agreed this year.

However, the deal may yet founder if the European Commission competition authorities object to the slow pace of the plan to dismantle subsidies. Power companies at the talks said they had agreed to buy 35m tonnes of German coal a year from 1997 to 2005 - but only at world market prices, which implies substantial support pricing.

Mr Jürgen Möllemann, the economics minister, said a new financing system would have to be worked out to replace the current "coal pitting" subsidy scheme under which electricity companies are allowed to charge an 8 per cent levy on all bills to cover the extra cost of buying German coal over cheaper imports or other fuels.

The negotiators also agreed that quantities of subsidised coking coal for the steel industry should be reduced from 21m tonnes this year to 15m tonnes by 2005.

Brussels has given permission for the coal pitting system to continue until 1995, but it said earlier this year that it wanted the quantities of coal involved reduced from almost 41m tonnes this year to 30m tonnes by 1993.

Mr Möllemann, who went into the negotiations demanding a cut in coal output to 45m tonnes, said the agreement was a "rational compromise" which he would present for approval in Brussels "with all vigour".

New draft has few changes

Continued from Page 1

tion between EC states, the Dutch plan provides for the possibility of giving the Commission the full right to propose policy in these areas. This is conditional on all EC states agreeing.

The Germans will pleased by the new twist, as they want maximum community involvement in these areas. Immigration and criminal justice issues would, like foreign and security policy, remain basically areas of inter-governmental co-operation among EC states.

On a common defence policy, the Dutch text accepts that virtually all states agree that European defence efforts should be focused on the Western European Union. It does not attempt to reconcile the view that while France and Germany want to bring the WEU close to the Community, Britain and Italy say the WEU must have equally close links with Nato.

The text sets out more clearly how a common foreign policy might work. Areas of "common action" such as relations with the US would be decided unanimously by government heads.

But "the general rule" would be that "the means of implementing a common action would be decided by a qualified majority" of at least eight EC states.

Backing sought for fusion plan

By Clive Cookson, Science Editor, in London

NUCLEAR fusion researchers yesterday urged the world's scientists to support plans for a \$5bn experimental fusion reactor which would generate as much electricity as a large power station.

The call followed Saturday's successful experiment with the Joint European Torus (JET) at Culham in Oxfordshire, England, which was the first demonstration of controlled fusion on earth.

Dr Paul-Henri Rebut, JET director, told a press conference in London that the proposed International Thermonuclear Experimental Reactor (ITER) would be a doughnut-shaped device modelled on JET but more than twice as big.

There is not yet even a short-list of candidate sites for ITER, and the design team will work in three separate places: Garching in Germany, San Diego in the US and Naka in Japan. "On objective technical criteria, a site alongside JET at Culham would be possible," said Dr Rebut.

He and other technical experts from the European Community, the US, Japan and the Soviet Union will be meeting in Moscow this week to negotiate the engineering design stage of ITER.

Dr Rebut said that "if there is strong political support from governments" construction of ITER could start in 1995. But political wrangling about funding and location would set the project back by several years.

Fusion, the power of the sun, releases immense quantities of



Paul-Henri Rebut: due to meet other experts in Moscow energy by forcing together light atoms (forms of hydrogen known as deuterium and tritium). It is the opposite of fission, the basis of nuclear power today, in which heavy atoms of uranium are split.

Saturday evening's JET experiment did not use the full power of the reactor. It released 2MW of energy in a two second burst, from less than a gramme of superheated gas at a temperature ten times higher than the centre of the sun.

ADVERTISEMENT

Submarine auto-pilot

Ferranti International is

awarded the contract to supply a third generation submarine auto-pilot offering more comprehensive utilisation and improved stability at periscope depth. The system, which is crucial to safety, has been derived from submarine control systems supplied to the Royal Navy. Operational improvements include precise depth control irrespective of any compensation ballasting errors, automatic crewer when changing depth and reduced risk of broaching. The auto-pilot is a digital micro-based system designed by Ferranti Naval Systems, to set the control position of the hydroplanes to match the optimal relationship between speed, trim and pitch angles as the submarine manoeuvres. The system also incorporates concepts developed by the MoD's Defence Research Agency (formerly the Admiralty Research Establishment) Haslar, Cambridge University and the Cranfield Institute of Technology.

Air traffic controls

Siemens Pleassey Radar

awarded the contract to supply new display graphics generators to Ferranti International as part of the contract for an evaluation and training system for the National Air Services Air Traffic Control Evaluation Unit at Hurn, nearournemouth. The contract covers the supply of over 20 ultra high resolution VARS-X displays and follows the successful supply of the same equipment for West Drayton, Manchester and Glasgow ATC facilities.

FERRANTI INTERNATIONAL

WORLDWIDE WEATHER											
Algeria	18	24	Berlin	10	16	Cardiff	10	16	London	10	16
Athens	18	24	Bombay	28	34	Chennai	28	34	Madrid	10	16
Bahia	28	34	Bombay	28	34	Cairo	18	24	Moscow	10	16
Bombay	28	34	Bombay	28	34	Calcutta	28	34	New Delhi	28	34
Bombay	28	34	Bombay	28	34	Colombo	28	34	Paris	10	16
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Bombay	28	34	Bombay	28	34	Shanghai	18	24			
Bombay	28	34	Bombay	28	34	Singapore	28	34			
Bombay	28	34	Bombay	28	34	Taipei	18	24			
Bombay	28	34	Bombay	28	34	Tokyo	18	24			
Bombay	28	34	Bombay	28	34	Yokohama	18	24			

Temperatures in °C; wind speed in km/h; rain in mm; sun in hours; clouds in %

هكذمان النخب

COMPUTERS IN FINANCE

Tuesday November 12 1991

SECTION III

For many firms in financial services, computer technology as the route to instant competitive advantage is wearing a little thin. Consequently, while the financial institutions continue to invest in technology, they are doing so more carefully. Alan Cane investigates

Atmosphere of restraint

MAURICE XUEREB of the Mid-Med Bank of Malta tells a story of an early experience of automated tellers machines (ATMs) at his bank.

One morning while staff were replenishing a machine with cash they heard exasperated mutterings outside from a customer annoyed to find the machine unwilling to accept his card. "Could you please wait a moment," one of the clerks shouted spontaneously. "Oh God, it even talks," came the awed response.

However, for many institutions in financial services, computer technology as the *deus ex machina*, the silver bullet to confer instant competitive advantage is wearing a little thin.

After all, if ambitious use of information technology (IT) were enough to guarantee sustained success, Citibank of the US would be uncatchable. In spite of an annual investment in computer technology which exceeds \$1bn, America's largest commercial bank is in difficulties.

It lost \$885m in its third quarter this year, and elected not to pay a dividend for the first time in 178 years. It may have to sell, among other assets, Quotron, its loss-making

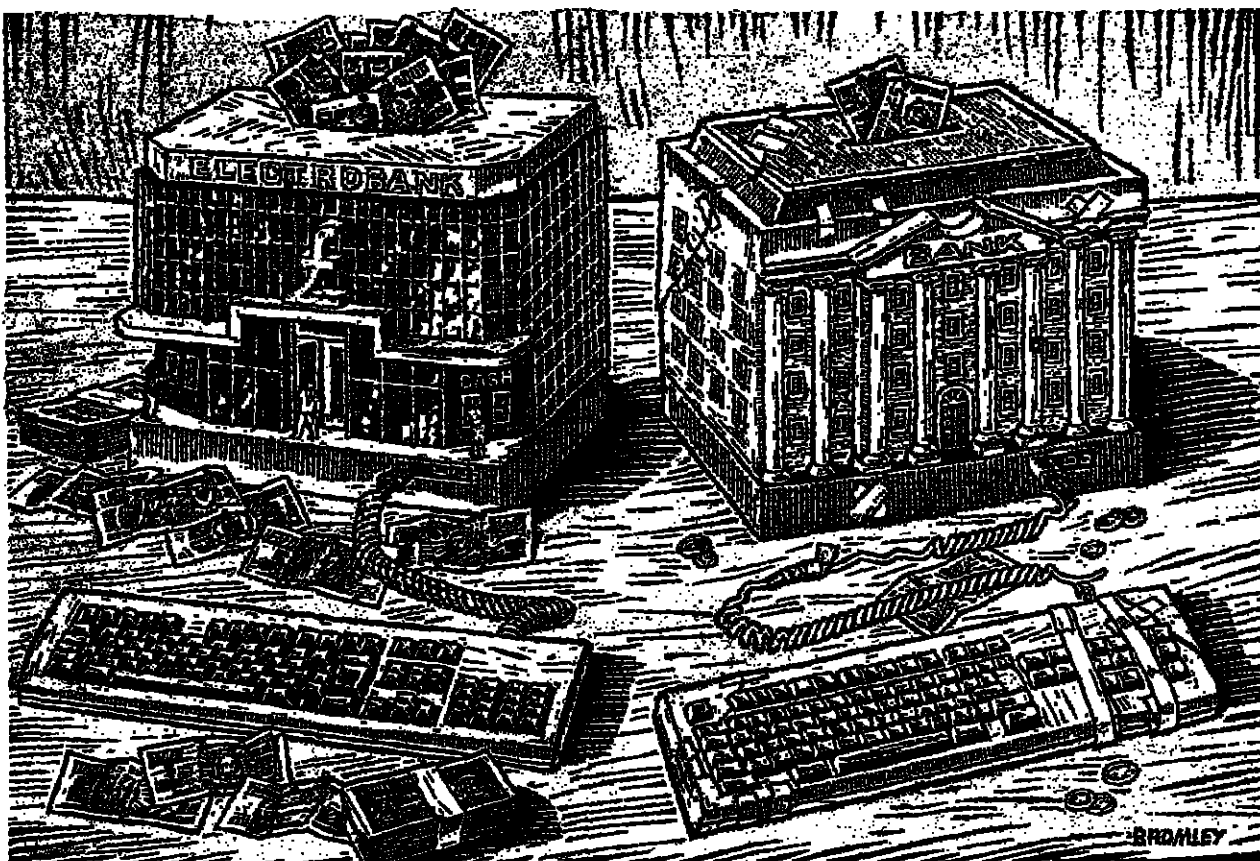
ing electronic information service, to bolster its balance sheet.

Its troubles have little to do with its technology, more with its failure to curtail its commercial property loan book when the sector was clearly getting into trouble in 1989, its exposure to Third World debt and the effect of the recession on consumer spending.

It is unfair to spotlight Citibank's difficulties for it has been an enthusiastic standard bearer for IT over the years, but its predicament illustrates a point that is being rammed home to financial institutions the world over: that IT has a part to play in underpinning business processes but that it is no substitute for sound business strategy and decision making.

The result is that while financial institutions are continuing to invest in technology, they are doing so more carefully than in the past and with a closer eye on the benefits they hope to obtain.

In addition, the recession in the US, UK, Australasia and parts of Europe, coupled with the slowdown in world securities markets have all conspired to cast a pall over information technology in finance.



Computer companies still believe there is potential for growth in the finance sector.

ICL, the UK-based company owned by Fujitsu of Japan, is moving into the automated teller machine business (ATM) in Britain, offering a range of machines developed by Fujitsu.

ICL, a market leader in retail systems, is not especially strong in banking although it has a number of building society accounts.

The ATM market is dominated by NCR, now part of AT&T with a joint venture between IBM and Diebold - Interhold - in second place; ICL believes it can capitalise on customer's desire for choice for supplier.

In spite of the atmosphere of caution and restraint, the amounts individual institutions are spending on computer systems are impressive.

They are investing to tackle a wide range of business

problems. These include:

■ The integration of customer information files.

Leeds Permanent, the UK's fifth largest building society is spending £15m on a new database, a state-of-the-art customer information system designed to give a single view of each of the Society's 3.8m investors and 475,000 borrowers complex of relationships with the organisation. The advantages are expected to be so great that all the costs will be recouped within the first two years.

■ Hastening the development of new products and services. Banca Popolare di Bergamo, an old-established Italian co-operative bank is moving to open systems and "client-server" architecture, replacing batch-orientated mainframes with a network of 1,800 workstations and 300 servers spread across the bank's 130 branches.

Client-server designs, where

workstations on desks are networked with more powerful computers, can cut the cost of data processing considerably and allow more flexible introduction of new applications software to underpin new products.

■ Improving the productivity of sales people.

The UK branch of Sun Life of Canada is equipping each of its 1,200 sales people with a laptop personal computer with a view to streamlining administration.

They are able to provide insurance quotes on the spot and, through a quirk of human psychology, the figures provided by the computer seem more authoritative and accurate than those calculated manually.

Sun Life executives claim that the earnings of sales people using laptop computers are 25 per cent greater than those using paper.

Cost savings remain an important source of justification for IT investment. Barclays Bank in the UK has automated the cheque and credit handling processes in over 700 of its larger UK branches. The cost savings are expected to be an immediate £2m a year, rising to £8m a year by the middle of the 1990s.

Downsizing, replacing large, expensive machinery with smaller, lower cost systems based on industry standards is another area of interest.

The UK's National Westminster Bank, for example, is reported to be experimenting with a supercomputer based on a "massively parallel" design. Industry standard or "open" systems offer lower cost hardware and freedom from reliance on a single manufacturer.

Image processing, a technology which captures documents in electronic form on optical

disks, also promises to reduce costs.

Images held in electronic form can be stored, processed and transmitted as if they were any other kind of data. Image processing will reduce or remove much of today's expensive manual paper handling and reduce time wasted searching for files and correspondence. There are estimates that it could result in productivity gains of 25 per cent or more when applied to administration.

There are concerns that too much emphasis on cost reduction rather than strategic investment in computer technology can be damaging.

New research from the consultancy Computer Management Group (CMG) suggests that London is becoming uncompetitive with financial centres in Germany and the Benelux countries because of a lack of investment in computer technology.

More than 20 per cent of UK financial institutions are unhappy with their existing systems, CMG says, and 100 per cent are concerned about specific areas - especially the inability to obtain timely management reports.

In an interview later in this survey Mr Joseph de Feo, chief information officer for Barclays Bank reinforces CMG's concerns over the competitiveness of UK banking.

CMG says that years of overcapacity and narrowing margins have left companies unable to invest adequately in modern systems. "The money which is available is generally being spent on cost-cutting and short-term business aims rather than the longer term technological base".

However, there is evidence that financial institutions are beginning to use computers as marketing tools. According to research carried out by the Battelle Institute in Europe, retail banks are in a race to install integrated computer aided sales systems in their branches.

These systems would involve customer-orientated databases of the kind being installed at Leeds Permanent with artificial intelligence in the form of expert systems to assist in cross-selling to customers.

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Illustration: David Bromley

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Synergy at work



Air traffic control

FERRELL INTERNATIONAL

COMPUTERS IN FINANCE 2

Retailing heads the investment queue, writes David Barchard

A change of priorities

FLEXIBILITY and cost effectiveness are the watchwords these days when banks and building societies approach systems. With their margins under pressure, control of costs is the top priority for most retail banking groups.

"Much better understanding has been developing between users of technology and the suppliers of technology in the last few years," says Mr Bert Morris, chief executive for support services at National Westminster.

Investment in systems and computers is still very heavy. Mr Ron Price, managing director at Midland Bank, says he would expect a bank to spend between 12 and 20 per cent of its non-interest costs on information technology. This translates into a budget of about £300m a year. NatWest probably spends nearer £400m, and Lloyds around £300m.

About 60 per cent of the spending will go on production and running of hardware; 10 per cent on maintenance; and 30 per cent on systems development and innovation.

Most banks set up their original software systems in the 1960s, organising them around products. These systems are now being replaced by a new generation of customer-centred software with a relational data base at their centre.

Banks make most of their profit out of their domestic retail operations, and the relational data base is the key to selling their products in a high volume low cost environment, hence most of the banks' IT spending goes on their retail operations.

Improvements in processing have already been achieved in most banks. Midland Bank, for example, has merged its 30 data centres into three, and has nine main processing centres.

Midland says it has achieved significant economies of scale in the last four years, which it hopes will save it £200m over 10 years.

NatWest runs all its processing - up to 20m transactions a day - from its main data centre at Goodmansfields with a tiny staff.

"The key thing we are doing at the moment is to build a relational data base for our 14m to 15m accounts. Our system is a bit old, but it is very reliable. What we are now doing is putting a relational base on to the software, and by July 1992 our branches will be able to access the system," says Mr Morris at NatWest.

"Some of our competitors are

Customer-centred software is replacing systems of the 1960s

just putting what they have got in the computer into their data bases. We are putting what we have got in the bank branches. It is going to make us more efficient and able to sell more valued-added products," he adds.

The two other prongs of the electronic revolution in retail banking are improved ATM performance and the increased use of PCs alongside mainframes.

ATM development is largely customer driven. Banks may feel that customer demand for ATM networks has now been largely met, but they are under constant pressure to refine the performance of the networks.

The application of PCs in retail banking is also expanding rapidly. Inside banks, terminals - a large UK bank may have about 25,000 of them - look like becoming the focus of a further set of changes.

"There is an increasing tendency to work around PCs, using the mainframe computer for standard processing and nothing else," says Mr John Carrier, deputy chief executive of Scarborough Building Society.

Developing software to take advantage of the PC explosion may take time. "I don't think the software tools are there at the moment," says Mr Entwistle, general manager for information in Lloyds Bank's technology division.

The banks are well aware of the costs of badly planned systems - or those built around a faulty perception of needs, such as the early mortgage systems used by the big four clearers. In the early 1980s, the banks went into the mortgage business without developing accounting systems. The result was that for several years some mortgage products were not as user-friendly for customers as those of the building societies, while the costs of administration were higher. Mr Richard Barrow, general manager for business information at Halifax, the largest UK building society, puts the case for in-house software development. It is cheaper, he says, "and we get the product up and going much quicker, contrary to popular opinion".

Meanwhile the retail banking world has yet to decide how quickly it will adopt technology which is already available but expensive. The list is headed by image processing and smart cards. Attitudes towards smart cards have softened among UK banks in the last two years as the need to combat rising losses on cash and through new technology become more obvious. "We have still gone mostly for Pin (personal identification numbers), because when you look at the cost of installation of equipment, Pin is the only thing that makes sense," says Mr Colin Gunner, manager of business development at Bull, the French electronics group. "But signature verification may be only two years or so away."

The number of experiments with dynamic signature verification and other biometric methods of holder identification is growing.

Most banks are still deterred by the huge cost of installing a new generation of smart terminals in the UK - as well as by the higher unit cost of micro-chip cards.

Mr Gunner's colleague at Bull, Mr Alan Laird, market manager of finance, is bolder. He believes that by 1995, 75 per cent of the UK population will be carrying smart cards. France's experience with smart cards is likely to pave the way for the UK. "We got a very positive recommendation for the smart card from the French banks this year," says Mr Gunner.

Image processing is somewhat similar. It is already in use on a small scale. About two dozen pilot schemes are being tried out, and last year NatWest began using some image processing in its credit card processing operations.

The consensus seems to be that image processing will arrive in a few years. "Image processing is going to come eventually with cheque truncation and the replacement of cheque handling," says Mr Entwistle.

The banks believe that it will probably be introduced first in paper-hungry operations like life assurance and share registration. Its use in cheque truncation would need a change in the law.

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Lloyd's of London: the changes will help to consolidate London as the world's leading centre for commercial insurance

Insurers begin to grasp the electronic nettle

Market's complex structure is a brake on progress

LONDON'S insurers are steadily beginning to grasp the opportunities offered by new technology. After a number of false starts, a coherent approach is beginning to emerge which could eventually link the market's various trading bodies, bring unity to a highly fragmented market and help consolidate London as the world's leading centre for commercial insurance and reinsurance.

Although the advantages of paperless trading have been apparent to market leaders for some time, the complex structure of a market which supports the businesses of several hundred companies, Lloyd's syndicates and brokers has held up the pace of change. At Lloyd's more than 300 separate insurance syndicates managed by more than 100 agency groups generated premiums of around £5.5bn in 1990. More than 250 companies

After some false starts, a coherent approach is emerging which could unite a fragmented international market

have operations in the city and produce a volume of business roughly equivalent in size. To complicate matters the companies are divided into two groups.

Over 100 marine and aviation insurance companies and subsidiaries are members of the Institute of London Underwriters, an association that since 1989 has occupied its own custom-built offices at Leadenhall Street near Lloyd's.

A roughly similar number of companies, specialising in more broadly based property and liability insurances and reinsurances, are members of the London Insurers and Reinsurers Association and have their plans to set up a separate building cum trading centre - the London Underwriting Centre.

Lloyd's syndicates and London market companies exist in a kind of competitive equilibrium, sometimes competing against each other, sometimes cooperating by joining forces to underwrite risks on a syndicated basis. On some larger risks several dozen insurers may write a separate slice of the business.

A further 100 or so insurance and reinsurance broking companies - who act on behalf of insurance buyers - are also active. Every working day squads of insurance brokers carry heavy binders of documents between their offices and the buildings housing Lloyd's, the ILU and the various other insurance company

offices. All this adds up to a highly labour intensive and complex marketplace, which could benefit enormously from the introduction of facilities to handle claims and conduct underwriting operation electronically.

Important progress was made in 1987 when Lloyd's and the companies selected IBM as a preferred supplier for the London Insurance Market Network (Limnet), a message system which allows brokers and underwriters to communicate electronically with each other and to which 850 organisations now have access.

But according to Viscount Chelmsford, chair of Limnet, it was not until 1989 before leaders of London's various market organisations realised that there ought to be cooperation rather than competition between underwriters at Lloyd's and those in the insurance companies.

"The great truth finally dawned that if we acted together to drive down our expense ratios then London as a market place was improving its competitive edge against the rest of the world."

Developments have been quickened in the area of claims and settlements. Over 35 per cent of all company claims are handled on the LIMNET. Progress at Lloyd's has been slower but in July 1991 Lloyd's agreed to merge the market's three separate claims offices - each of which employed their own separate electronic systems - into one single centre. Separately in association with the Lloyd's Insurance Brokers Committee Lloyd's is developing a unified claims advice and settlement system.

By the end of this year most of Lloyd's back room operations - including the registration and accounting of premiums and claims received - will be conducted electronically, a move which will lead to the phasing out of computer punch cards, of which until recently Lloyd's was one of the world's biggest users.

Already claims settlement times have been reduced from three to one week on average. The next stage involves the development of electronic trading whereby business could actually be placed electronically.

Early efforts by Lloyd's to introduce a system to allow for paperless trading ran up against widespread opposition from underwriters and brokers who believed that the new methods would eliminate the face to face contact which they believed to be an essential part of their business.

Lloyd's commercial success - like that of the London insurance market as a whole - has been based on its reputation as a centre where under-

writers can insure goods and exposures with very high values - ranging from ships and their cargoes to oil rigs and space satellites. The terms of these transactions vary from case to case and are therefore negotiated individually.

Subsequent efforts to develop electronic trading have taken these problems on board. Lloyd's network initiative (known as strategy for networking - or stratnet) seeks to make electronic trading a support for face-to-face negotiation of deals.

Routine business such as when an underwriter subscribes to a risk whose main terms have already been negotiated by a lead underwriter, or writes low value high volume risks (such as motor insurance) could be carried out entirely electronically.

In November 1990, the committee coordinating the various new technology initiatives

Underwriters and brokers are already communicating internationally in a network which could become global

being developed by Lloyd's, the ILU, the brokers and the companies agreed to work on the development of a joint marketing initiative (jmi).

The specifications for the first phase of the jmi have now been agreed, systems to allow brokers and underwriters to transmit and receive messages via Limnet are being tested and the system could be launched - on a trial basis - as early as April 1992.

A handful of underwriters and brokers are already communicating internationally via Limnet and there are clearly hopes that the network can become part of a broader global network. Representatives from the London market are holding regular tripartite meetings with their counterparts in overseas markets in order to develop common network standards.

Talks have been held with RINET, a Brussels-based network, which is backed by nearly 100 companies from 18 countries, the US brokers and Reinsurers Association and the Reinsurers Association of America.

Viscount Chelmsford sees such cooperation as the best way to ensure that the London market's data standards become international. That will reduce the expense of change and allow the UK industry "the widest possible scope for communications with the outside world".

Richard Lapper



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COMPUTERS IN FINANCE 3

ELECTRONIC TRADING

Systems are go with motor insurance pioneering the way

COMPUTER NETWORKS are fundamental to the development of electronic trading of insurance, a concept beyond the embryonic stage in the UK. Systems are up and running with motor insurance pioneering the way.

The volume of insurance sold through electronic trading is still low but is now set to accelerate. Electronic trading is part of a wider concept called electronic data interchange (EDI) in which information is sent over a computer network linking insurance brokers and insurance companies.

How does electronic trading

The volume of insurance sold through electronic trading is still low but is set to accelerate

work? Suppose you go into a local EDI-equipped insurance broker to insure your car. The broker enters your details into a computer terminal whose screen then shows example premium quotes from a range of insurance companies or syndicates. You select a particular policy and the computer then asks supplementary questions, validating each answer as it is entered via the keyboard. Once all details have been entered, the terminal prints out a proposal.

The broker files your signed proposal, and under EDI, details of the transaction are automatically sent down the network to the insurance company's in-house computer system. The only paper involved is that printed out at the broker's office.

The EDI concept goes beyond just transacting new insurances ("new business" in the jargon). If you change your car or make a claim, mid-term adjustments to your insurance are needed, or you might want to renew your policy.

Once you notify the broker,

the EDI link to your particular insurance company enables these adjustments to be handled easily - claims can be tracked on behalf of the customer from the broker's terminal.

According to Mr Nick Southan, business development director at Policy Master, a leading supplier of EDI computer systems, the EDI concept has been around for a number of years but has not been a commercial success until recently.

Two obstacles have held development back. First, the need for standards - with 12,000 brokers and several hundred insurance companies in the UK it is clear that chaos would result if a network linked each proprietary computer system without standardisation. Standards, which concern the format of information being transferred over the network, have been addressed since the launch of Brokernet in 1986.

Brokernet's constituents - the network provider International Network Services in Sunbury-on-Thames, Middlesex, computer system suppliers, and brokers - drew up what became *de facto* standards for the whole industry following endorsement by the AA, a leading motor broker, in 1988.

The next obstacle, which the industry took longer to grasp according to Mr Southan, was the need for validation of the information being transferred. It is no good speeding up the information flow between brokers and insurance companies across the network if that data is incorrect - you just speed up mistakes. Software systems such as Policy Master's Validated Business System (VBS) validate a client's insurance information as it is entered at the broker's computer terminal.

It is estimated that in the traditional paper-based insurance market between 40-50 per cent of policy documents have

to be returned to the broker from the insurance company because of incorrect information.

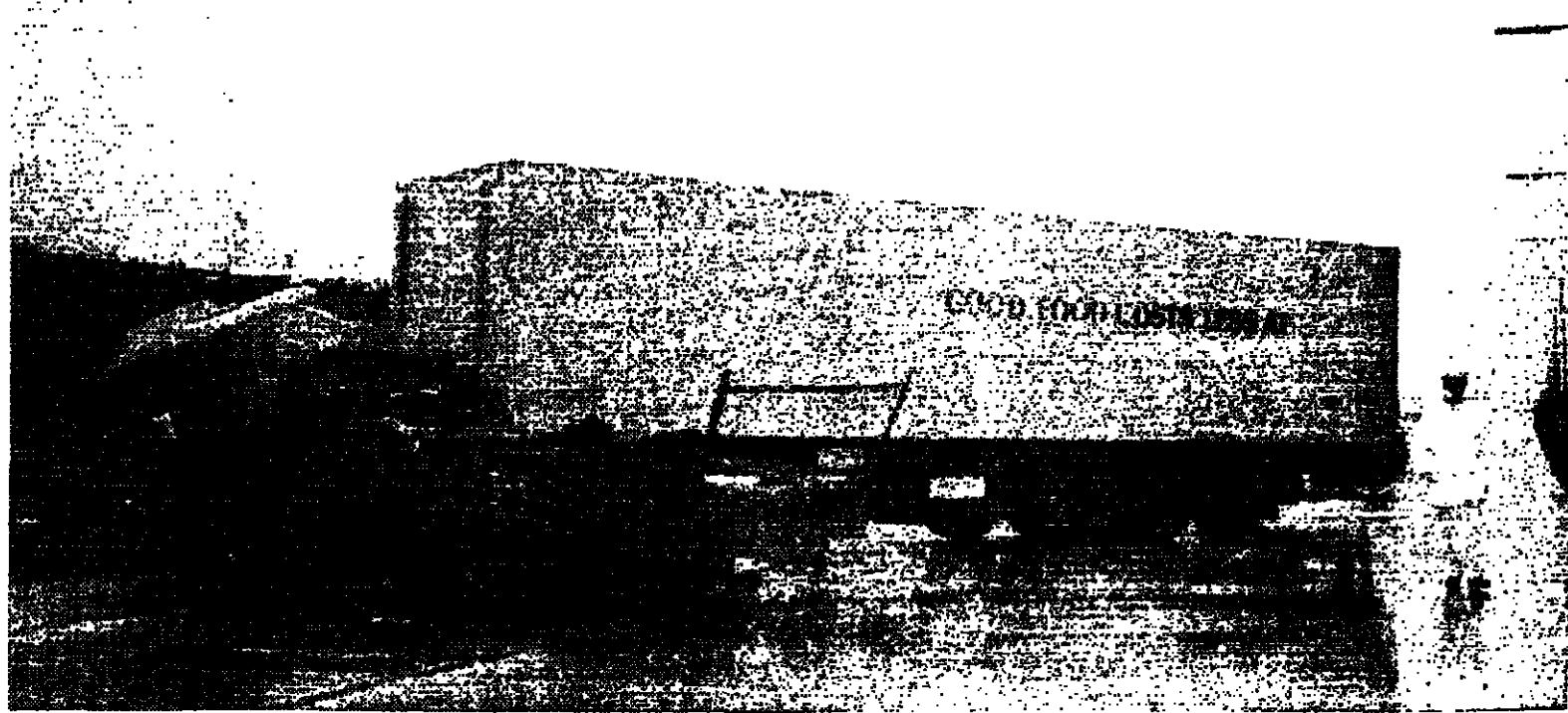
Validation eliminates these mistakes at source and EDI then speeds flow of this formatted, correct information. With these obstacles cleared, EDI and electronic trading within the insurance industry are poised to take off. There are now several competing initiatives among providers of both networks and computer systems, and the idea is being extended beyond motor, to cover household, life and commercial insurance.

What are the advantages over traditional paper-based systems? For insurance companies, administration costs are reduced with little or no paper flows from the broker - and there is no duplication of "data entry" tasks. It is the broker who provides documentation to the client, again reducing costs for the insurance company. Brokers seem to be shouldering more of the responsibility. However, they also benefit from reduced paper work and the elimination of mistakes.

Under systems such as VBS, brokers' computer terminals handle many of the back office

The idea is being extended beyond motor, to cover household, life and commercial insurance

functions, for example the routine clerical tasks such as notifying clients of renewals. Increased efficiency and additional services such as claims tracking provide a better service to customers which should attract business in an increasingly competitive market. Brokers may also benefit from closer links with insurance companies leading to more marketing co-operation, and from the use of electronic



Crash course: in the UK, motor insurance has led the way in electronic trading and accident claims are now easier to process

mail services that EDI systems offer.

Networks are currently operated by INS, British Telecom Insurance Services (BTIS) based in Hemel Hempstead, Herts, IBM and AT&T Intel. These may be divided into two broad categories - first, "dumb" networks such as INS in which much of the processing power is held in the computer terminal, generally a Personal Computer, at the broker's end. Second, "value added" networks such as BTIS where currently the broker's terminal is little more than a viewdata screen with processing carried out within the network. Software systems are provided by many companies among them Misys Datalink, Quotel, North Park and Policy Master.

Ms Niki Newman of INS says that motor was chosen as the first area for the introduction of electronic trading and EDI because of the low margins and high overheads in the business. Standards have been developed for motor "new business", and are being developed for "mid-term adjustments", claims and renewals. INS now has 300 brokers, 23 insurers and the Lloyd's market on board. It has seen the number of transactions across the network grow from 20,000 a month in 1990 to 140,000 in September 1991.

Ms Sue Norris, manager of

BTIS, says that while the system "at the moment is very much a viewdata service", it is being expanded to include an EDI product specifically for the insurance community, including a PC interface and back office systems - it is "moving towards total transaction support".

Mr Paul Cheall, head of personal networking at Norwich Union, says that his company is involved in extending the idea beyond motor insurance. Norwich Union is developing a self-quote, self-policy-issue system for its Contents Plus household insurance product. However, he is cautious about

Motor insurance was chosen for electronic trading because of low margins and high overheads

whether electronic trading will be the predominant method of personal insurance sales five years hence.

He emphasises the length of time needed for standards to be set, and the level of investment required.

Mr Cheall argues that Norwich Union "spent a fortune building a black box" for the company's internal computer system to pull information from the network for motor

insurance new business. It is doing the same for motor "mid-term adjustment" information. He questions whether all insurers will be prepared to make such an investment. He also says that some brokers will survive without EDI.

Others think brokers will find it difficult to survive if they do not take the EDI concept on board. One Norwich Union wag entitled a paper on the subject "Edi or Die?", while Mr Southan argues that "in five years' time people who are not using such systems will not be in business".

Mr Keith Platt, an insurance broker, has developed a system which takes the electronic trading concept a stage further by moving the point of sale outside the broker's office altogether.

His Brokerchain Link system involves the use of do-it-yourself terminals, similar to bank cashpoint machines. He has set up a pilot scheme in Yorkshire involving four machines sited in supermarkets.

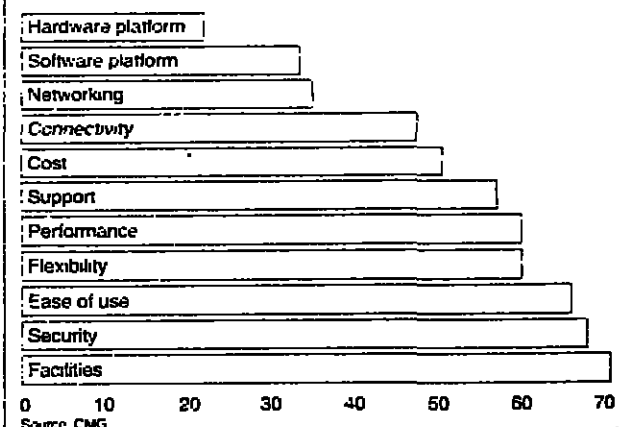
The customer is led through a series of questions by the "expert system" menu driven software. This gives access to alternative quotes, from which the customer can choose a policy, and then have a proposal and cover note printed out by a laser printer contained within the machine. Payment can be made by credit card.

Eight insurers are involved at the moment although Mr Platt expects another 20 on board by the next year. The system is only for motor at the moment although "once motor has been developed the others

are easy." Mr Platt says he is trying to "graft brilliant technology on to a 200-year-old industry".

Simon Reynolds

Factors affecting selection



Source: CMG. Actions speak loudest. Among the findings of a survey into the information technology requirements of financial organisations are listed the considerations to which buyers attach high priority. The survey was conducted by Computer Management Group in March-June 1991, and a range of 520 organisations in the UK, Germany and the Benelux countries were consulted. Overall response was 22.5 per cent (116 organisations), and participants comprised a mix of operational and IT staff, with a leaning towards the former. Figures on the bottom line refer to the number of respondents who attached a high priority to the considerations in question, thus nearly 60 out of 116 organisations attach a high priority to flexibility, and so on.

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COMPUTERS IN FINANCE 4

FIVE years ago, the London stock market took its first big technological leap forward. Big Bang, in October 1986, pushed share trading off the floor of the Stock Exchange and on to the telephone, with the support of SEAQ, the exchange's automated quotations system. Spending on front-office dealing systems spiralled.

The next big technological advances in the equities market will be less visible. Yet their effects are likely to be more profound, raising some fundamental questions about the role played by all intermediaries, from broker-dealers to the exchange itself.

Two areas are under development: settlement (the process of exchanging cash for shares) and trade confirmation (the vital link between trading and settlement, the point at which deals are agreed and passed to be settled).

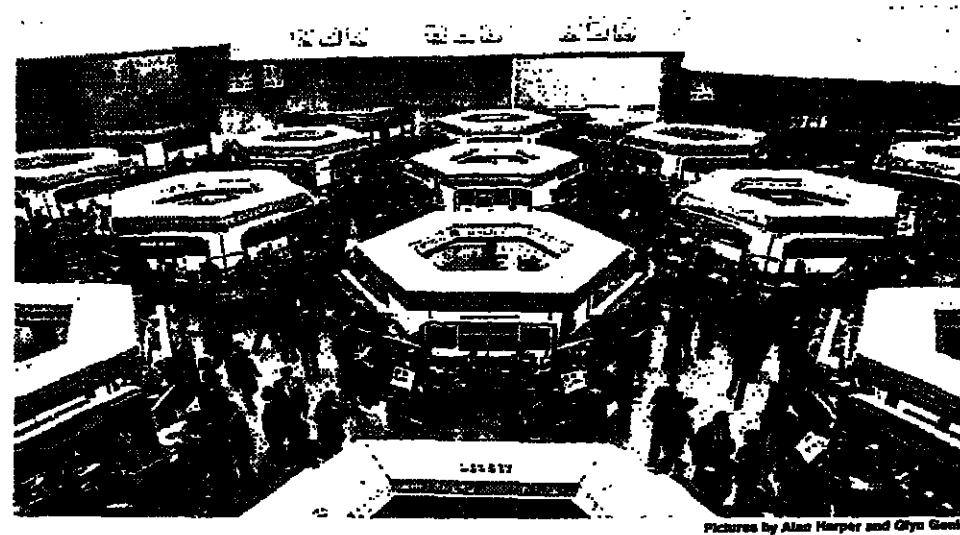
The first of these, settlement, has received the greatest attention, thanks in large part to the Group of 30, a US-based think tank of former economic and financial policymakers.

G30's recommendations for the development of national securities settlements systems to a common international standard have set the yardstick against which developments around the world are now being judged.

G30's timetable may be proving over-ambitious, with its target of settlement three days after a trade takes place (known as T+3) likely to be missed in many countries, but the G30 initiative has at least



Between 1967 (left) and 1986 (right), the London Stock Exchange saw many changes. But Big Bang, in October 1986, pushed share trading off the floor and on to the telephone



Pictures by Alan Harper and Glyn Gwyn

SECURITIES MARKET

Fundamental questions

endary, but short of disaster, the UK settlement system (Taurus) will be ready for testing next spring.

Dematerialisation (when share certificates and transfer forms disappear from the UK settlement process) will be only the first step.

More significant will be the later linking of payment and stock clearing systems, a necessary step in the development of "delivery versus payment",

or DVP (when cash and shares move at the same time, and buyers and sellers are assured good delivery of their stock or cash).

That claim many in the securities industry, will play into the hands of banks whose control of the payment systems will give them an important advantage over independent brokers.

Already, brokers are faced with the likelihood of having

to obtain bank guarantees to back all the purchases they make through Taurus.

If Taurus disturbs settled relationships in the securities industry, the development of automated trade confirmation could be far more profound. It could be one key step in allowing investment managers to side-step broker-dealers altogether, enabling them eventually to trade between themselves and to plug directly into

settlement systems such as Taurus.

At present, banks and brokers retain control over the financial messaging system, Swift, through which trade details are frequently communicated. Institutional investors had asked to be allowed into the system, but were rejected after a vote among Swift's existing members this summer.

Instead, institutions are tied to a variety of communication methods - telex, fax, banks' proprietary systems - through which to communicate or receive communications about trade details.

A group of powerful institutions is now pushing for a purpose-built automated trade confirmation system, to enable institutions to input trade details to a standard format and receive confirmation from any other institution with which they deal.

If it ever materialises, this network could pose a competitive threat to both broker-dealers and exchanges. It could provide a means by which institutions could match trades between themselves, by-passing existing intermediaries altogether. The idea is not

new, of course: it was tried in the UK in the early 1980s through Ariel, with little success. The drive to create a trade confirmation network, however, could prove a stronger platform.

The institutions' initiative has at least prompted others into action. The Association of International Bond Dealers has said that its own trade confirmation system, Trax, will be extended to international equities. Trax is already linked into the two international securities clearing and settlement systems, Euroclear and Cedel, which were built to service the Eurobond market but have extended to equities as well.

The London Stock Exchange has also toyed with the idea of automated trade confirmation on several occasions, but appears to have held back due to a lack of enthusiasm on the part of its own broker members.

The sight of institutional investors taking the initiative themselves is likely now to prompt the exchange to explore the idea again.

Taken together, developments in trade confirmation and settlement could amount to a significant change in the way securities business is carried out. They will also entail significant new spending on technology by an industry which has been very short of profits in recent times. The costs and the risks of remaining in the industry are rising all the time.

Richard Waters

BUILDING SOCIETIES

Holding on against banking Goliath

THE RACE between banks and building societies to develop computer systems equal to the needs of the markets in the 1990s is something of a David and Goliath contest. The advantages might seem to lie with the banks - but building societies, even small ones, seem to be holding their own.

The large clearers tend to argue that their vastly larger systems have to be superior, though there are some areas - mortgage processing is one - where the building societies' more customer-focused approach seems to have given them the advantage.

"Building societies are running a lot fewer accounts with a much less complicated base, they are coming at things from a different angle from banks like ourselves and I think we have a massive advantage, they are light years behind us," says one clearing banker. Industry analysts are less sure that all the advantages lie with the banks. "Building societies have stepped up their IT budgets substantially in the last two years," says Mr John Wriglesworth, building society analyst at UBS Phillips & Drew.

He estimates that the total spending of building societies on IT more than quadrupled

between 1985 and 1990, rising from £69m in 1985 to £240m in 1990.

Societies tend to point out that they have had real time counter top branch terminals in place since the early 1980s, while most banks still do not. Their systems also appear to be much more flexible than those of the banks.

"The bank systems are like patchwork quilts which have been constantly repaired and modified since they were originally set up in the 1960s," says one banker.

Building societies have more flexible systems and have been able to offer products tailor-made to the needs of their customers.

They also seem to have reaped some advantages from being late-comers to retail banking. "Building societies came into personal banking without the handicaps that we (the banks) had of possessing automated systems for many years.

"As a result, although we were the original ATM market leaders, we found that Link could provide a competing service at a quarter of the price, using mature technology," says an IT specialist at one of the Big Four clearers.

He believes that when the banks do manage to interface with their customers as effectively as building societies do, the latter will find themselves being severely squeezed in the market.

Halifax, the largest society, spends less than £100m a year on information technology according to Mr Richard Barrow, general manager for business information, but it feels it has long been ahead of the banks in areas such as central data bases on its customers. "We have had a customer data service for the past ten years," says Mr Barrow.

Branch automation, including the introduction of the Phillips financial terminal system, putting a PC sales force

system on all its terminals, and software development are among Halifax's priorities, inside a general drive to cut costs and enhance branch services.

The society believes in arranging its software development in-house where possible.

With 14.5m customer accounts, Halifax's systems have to grapple with challenges that are at least as great as those of the banks. It already uses its customer data service for direct mail and other sales functions.

"We think the value of this sort of operation is a bit overplayed. Customers don't want to be cross-sold all the time," says Mr Barrow.

"Our objective is to drive the technology as far out as possible to meet the customer, so we try and capture all data at source."

Halifax is the industry's leader, but small societies also exude confidence about the ability of their computer

systems, though the variety of building society systems causes the industry one serious problem.

Mergers between small and medium sized industries are a regular feature of the building society world as the leading players in the market try to form financial services groups with a realistic chance of surviving to the end of the 1990s.

One of the main snags in many mergers - most notably that between Nationwide and Anglia building societies in mid-1990s - is the work of integrating the systems of the merging societies. It can often continue for many years after the merger.

On the other hand, small societies are often remarkably self-assured. Mr John Carrier is deputy chief executive of Scarborough, the 38th largest society by size in 1990 with assets of £348m.

"Without any doubt we can match the service offered by the big four and in some instances improve on it," Mr Carrier says.

Scarborough has recently installed a ICL series 39 level 55, a dual processor computer centre, at a cost of £2m, and replaced everything from the main processor downwards.

Software development cost £2.5m over a five year period. "We have put a lot of time

and effort and resources developing the system we have. We now have a tried and tested system and because the software is our own and we are not reliant on anyone else, we are incredibly flexible," he says.

One of the main software functions developed by Scarborough cover financial reporting. Many small societies find it increasingly difficult to prepare information in the right format.

ICL Omnia and Unisys have prepared software packages which cater for this need, and Scarborough is now marketing its own software to other societies through Gresham Telecomputing.

On the other hand, Scarborough - like most smaller societies - has stayed out of the ATM market, regarding ATMs as too expensive to be cost-effective.

Several building societies are now considering launching

a micro-chip card which will carry all the details of customer's accounts and some "lifestyle information" as well as provide a more personal service.

The smart card may also ultimately replace the customer pass book electronically.

The unit cost of a smart card would probably be around 15p to 20p but that no longer seems to be the issue that it once was. Added value from an enhanced customer relationship may make societies willing to absorb the additional cost of smart cards.

Smaller building societies with a strong regional base may be able to set up their own regional cards by linking-up with a local retailer. A strong local branding could be used to enhance customer loyalty, perhaps by adding on an incentive bonus point scheme.

David Barchard

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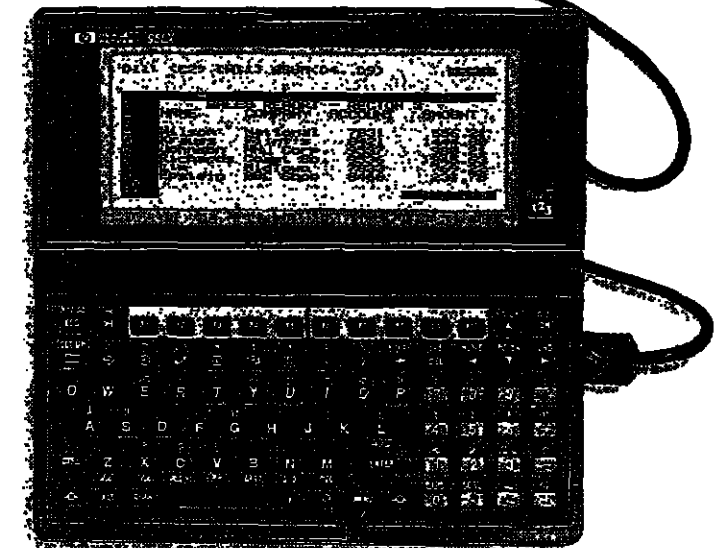
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COMPUTERS IN FINANCE 5

The role of artificial intelligence in the next 10 years

Less hype, more appeal

NOW THAT the dust has settled on the artificial intelligence (AI) explosion of the late 1980s, a clearer picture of the role which AI will play in the finance industry during the 1990s is starting to emerge. Does AI have real, lasting benefits that no bank can afford to ignore?

This question is best answered by examining AI in relation to other forms of decision support technology: that is, screen-based systems which provide banks and other financial institutions with decision-related information.

The explosion of interest in AI during the 1980s principally focused on commercial banking applications, but some of the most successful applications of AI have been in the retail sector, with loan application or credit card transaction application being notable areas of success.

There is a clearly-defined hierarchy of decision support information. Screen-based information starts by being very basic (such as prevailing prices of stocks). The next level of information involves the

computer system re-presenting the basic information in various "value-added" historical or thematic configurations.

Some banks have spent considerable sums developing systems that go one very important step beyond providing basic prices and value-added analysis of this information: these provide specific guidance on decisions.

The step up to advanced decision support systems that give such guidance may not seem very significant. However, the difference between using a computer as means of

Systems that provide specific guidance on decisions

getting rapid access to a wide range of information, and using a computer to make actual recommendations, is as great as the difference between driving a car to work, and asking the car where it would like to go.

There are two main categories of advanced decision sup-

port systems. First, there are those which embody a particular mathematical theory of how the variables in question - such as stock prices - are likely to change in the future.

The second category of advanced decision support systems consists of those systems which seek to emulate the human subjective decision-making process. Such an ambitious objective has led to these systems becoming known under their generic name of "artificial intelligence" systems.

As with the mathematical category of advanced decision support systems, there are two principal subsets of AI: the rule-based system and the neural net.

Rule-based systems derive from the idea that one way to try to replicate human

intelligence in a computer system is to program the computer with rules (or, as they are often called, heuristics) which supposedly govern the thought processes of a human in a particular field of expertise.

Supposedly is the operative word; although clearly some aspects of expertise in retail and commercial banking decision-making can be effectively represented in a rule-based form (loan authorisation being a good example), much human expertise is intuitive and tacit - and as such is not available for articulation and embodiment in a rule-based system.

Many rule-based systems have useful applications within the financial sector, although the extremely high level of judgmental skill required in

the trading or investment management functions market means that these are environments where the judgment-forming ability of rule-based systems will always be severely tested.

Neural nets - crude attempts to simulate in computer software the nerve cell/nerve fibre operation of the human brain - have on occasion caused considerable excitement and interest among computing staff in the finance sector who believe that these nets offer the best possibility to date for replicating human thought.

However, many people who champion neural nets do not fully understand them. A problem with applying neural nets in the financial world is that computer programmers have very little understanding of

how to digitise - let alone process - those subjective thoughts and impressions which play such a key role in the thinking of an expert in so many areas.

It is difficult to get a handle on the precise number of rule-based systems that are currently being used within the finance sector, simply because almost all these developments are proprietary and usually shrouded in considerable secrecy.

There have been a few notable successes in applying rule-based systems to loan or credit card authorisation; the best-known example being American Express's "Authorisers Assistant" which is a powerful, rule-based decision support system for transaction authorisation. Many Wall Street and City of London commercial

banks are involved with rule-based systems at some level, even if they have not reached full deployment.

How is AI likely to develop within the financial industry in the future? All the indications are that the hype of the late-1980s - which suggested that AI systems amounted to a sort of panacea - has burnt itself out, and left in its place the widely accepted and respected notion that AI systems do indeed have an important role to play within the financial sector, but primarily as constituent elements

The eager, emerging banking sectors of eastern Europe

of systems which use a range of more conventional analytical tools - including mathematical tools.

Such systems would have an appeal in all the world's financial markets, including the emerging banking sectors of eastern Europe, where, according to Mr Alex Dembitsky of

Geneva-based IT consultancy IDOM - which is a market leader in implementing banking systems in Hungary and Czechoslovakia - "commercial banks are eager to maximise the functionality of their new systems, and AI systems are already on many banks' shopping lists."

The more powerful the tools become, the more likely it is that they will be integrated within an overall decision support resource.

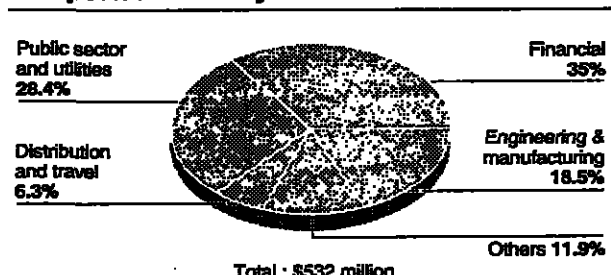
Mr Joseph Rosen, chief information officer of New York-based Dubin & Switka Capital Management, which specialises in managed futures and multi-asset fund management, says: "The advanced decision support industry may eventually become a victim of its own success, with the advanced portions of decision support programs being seen as so useful - for all their limitations - that they start to lose their own identity and become seen as part of the trading or fund management organisation's overall front-office weaponry."

James Essinger

Andrew Jack examines the increased use of image processing

How scanners boost bank productivity

European market by end-user - 1991



Source: Frost & Sullivan

ing correspondence for Access and its own Goldcard as well as Visa. Given the extra letters generated by credit card charges and financial products recently, that means typically 18,000 to 20,000 items every day. It now stores more than 60m records on magnetic disk.

Mr Peter Holmes, manager of special projects at NatWest Card Services, estimates that image processing has boosted productivity by at least 25 per cent.

But he stresses that the quality of service is as important as increasing the work-

flow. "Card holders are really impressed when they ring up and you can say 'I have your letter in front of me,'" he says.

Previously it could take several hours to fetch the letter being referred to by a caller. The bank would then have to incur costs calling the inquirer back. Now the customer's file can be on an operator's screen within about 40 seconds.

Letters are scanned electronically in batches and transmitted directly to the computer terminals of staff who process the letter on their screen. At this point, the scanning is

checked for quality: only about 8 per cent fail the process and have to be screened again. The indexes then tap in the customer's account number, and classify the type of inquiry before sending it to another operator.

According to a study completed in July by Frost and Sullivan, the market research company, sales from the electronic image management industry in Europe are due to expand from \$163m in 1989 to \$2.3bn by 1995. In the UK alone, sales are expected to reach \$385m in that year.

During 1991, the total market for image management products stands at an estimated \$532m. The single largest user is financial services: \$186m or 35 per cent of the total. That proportion should grow to 38 per cent by 1995.

That partly reflects the tremendous throughput of paper generated by the financial service sector, as well as the size and resources available to the companies involved, which are willing to invest in the equipment required.

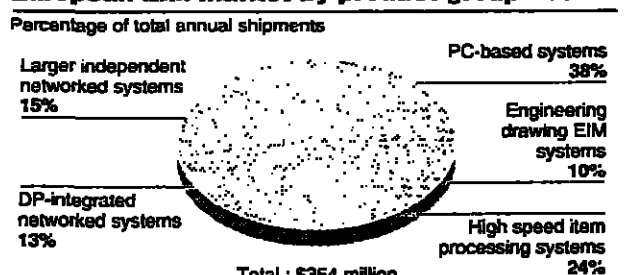
Mr Mark Churchward, divisional manager of the document management division at Olivetti, says that only in the past year have many large companies begun to come out of the closet and adopt - or admit that they have begun to adopt - image management systems.

"A lot of businesses have kept a secret of their image processing," he says. "Others have been a bit shy, because they want to see what their competitors were doing first."

The investments are being made despite the substantial costs involved, which he estimates at \$500,000 or more for a basic installation with 30 to 40 workstations. The sums are justified by typical productivity boosts of 30-60 per cent, he explains, so the equipment pays for itself within three to four years.

He stresses the importance of his unit's title: the management rather than simply processing of images. More than half of the productivity savings come from what he calls "a re-engineering of the business process".

European EIM market by product group - 1990



Source: Frost & Sullivan

earlier stage of implementation than NatWest. It uses image processing for its executive or "top hat" pensions section, which deals with the handful of people at the top of an organisation with specially-tailored benefits.

That means about 125,000 individual contracts from about 16,000 corporate clients. About 40 of its 63 staff use the equipment: 27 workstations, two scanners, and a "juke box" which stores the records on optical disks. There are about 115 queries a day. Not all incoming letters are yet

scanned and processed, but that is expected to happen this month.

Mr Gerry Irwin, pensions administration manager, estimates that whereas it used to take three or four months to train staff over the procedures used in the department, they can now be reasonably competent and able to work on the system in three or four weeks.

The objective from the start two years ago was to improve both speed and quality of document processing. "I think we have achieved all we set out to," he says. Files which used

to take weeks to access can now be retrieved and dealt with in two or three days. "People are noticing the difference," he says.

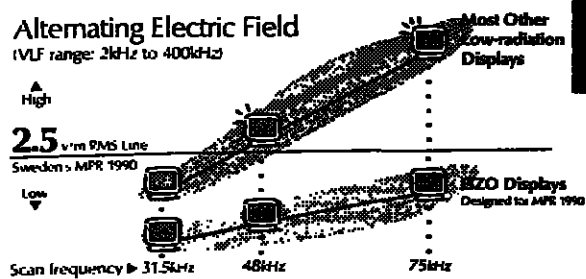
He acknowledges that it was a risk to launch a pilot programme on executive benefits, one of the most sensitive parts of the insurance business. But he says that the tasks involved are well defined and lend themselves to automation.

He also admits that implementation was much tougher than anticipated. "I don't think even we realised how much work we would have to do," he says. "We were slowed down at first, but now we have a system which can do some fairly amazing things."

Document processing may soon be able to scan and store images in colour. As networked computers grow, imaging systems are likely to be dispersed to regional sites. In the longer term, optical character or mark recognition devices will be able not simply to scan and store images, but to read text so that it can then be instantly manipulated on computers.

Mr Holmes has no doubt that image management is essential within the sector. "I think it's something the whole financial industry has got to adjust to," he says. "We can no longer just use manual methods. Technology has got to take over."

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COMPUTERS IN FINANCE 6

Eastern banks are racing to automate, writes Martin Whybrow

All aboard for capitalism

THE GOVERNMENTS of all the former Eastern Bloc countries have recognised that an efficient and automated financial infrastructure is essential for economic revival. The problem is how to achieve this.

Starting almost from scratch, priorities have to be worked out and the correct solutions must be chosen first time for there may not be a second chance.

A lot of banks are desperate to automate. In most countries there has been a rapid shift from a handful of large state-owned banks to a multitude of small independent institutes. In Hungary, for example, seven banks were created overnight out of the central state bank.

In Bulgaria, there was formerly one central bank, one foreign trade bank and one savings bank, all state owned. Now there are more than 80 banks.

The situation everywhere is very confused. Most banks are trying to operate in every market, foreign exchange in particular. Some will have to specialise, some will forge ties with banks in the west, some will merge - there are already signs of geographical groupings - and some will not survive.

The Soviet Union's situation is the most complex. It now

has more than 2,000 banks but, as the republics seek independence, it remains to be seen who will regulate them. Establishing a central bank is a priority of all the would-be republics but many banks are operating without any effective recourse to a regulator.

There are moves in all countries to set up clearing systems and stock exchanges, both essential for the long term economic future.

Progress varies considerably: some have not yet moved beyond the discussion stage but others are embarking on projects. Hungary is leading the way, having worked out the funding, timescales, tech-

Most banks are trying to operate in every market

nology and suppliers for an automated giro inter-bank clearing system.

The main emphasis in the banking sector has been to put in place the central back office systems which handle the core activities such as general ledger, accounting and any foreign exchange and money market involvement.

Branch automation in particular often has to wait. Although some banks in

Poland and Hungary have installed their first automated teller machines, these are not a priority of most.

Poor telecommunications are a problem; in some cases the remnants of the Cocom restrictions are still an obstacle; and some of the smaller players are finding funding a problem - in spite of there being some aid available from automation projects from the World Bank and International Monetary Fund. Given the previously centralised nature of the sector, there is a general lack of banking expertise.

Information technology skills are not lacking. Most users have had to survive for a long while with in-house developed or pirated software on secondhand computers from the west or clones manufactured in the east.

"Many have years of good expertise of hardware and software," says Mr Nikola Kostov, senior programmer at Bulgarian software house, SPS. "They are very good at assembling, configuring and repairing computers and systems software but are not so good at the final application or managing projects."

The limited experience means that IBM mainframes and DEC VAXs are proving popular because there is a rela-

tively large installed base of both of these - albeit often clones built in the Soviet Union or East Germany - but Unix is generating a lot of interest.

What is lacking is experience of large scale project management and of selection, implementation and customisation of banking applications.

Many banks are not aware of the applications available. Some are putting speed of implementation ahead of meticulous selection procedures and there is a tendency to take either the first solution available or the solution chosen by a neighbour.

For those who have traditionally ignored such things as copyright and intellectual property laws, the need to pay for the software can be a significant cultural hurdle. "Many are shocked to know the real price of software," says Kostov. "It is not easy to persuade them that the software might be more expensive than the hardware."

Most look to the West for solutions. Many western suppliers have a conscientious and long-term approach to selling in eastern Europe but others do not. With depressed markets elsewhere, some suppliers view it as a lifeline. A salesman has openly boasted of sell-



Line of credit: people queuing for Western money outside the Czechoslovak National Bank in Prague last December

ing a software licence to an east European bank for six times the going rate.

There are hardware and software companies selling old versions of their products which they no longer market in the West. There are suppliers who go in, sell their system and then leave without bothering to set up support operations.

Long-term support is very important given that the banks' activities will almost certainly change, and that applications which suit west-ern European banks may not handle many of the unique requirements of their east European counterparts. There

is also the lack of domestic experience.

"They have been dealt with in a cavalier way by some suppliers," says Mr Dil Thomas, a partner at Coopers & Lybrand Deloitte. "A lot operating there are desperate to sell their software or kit. The east is currently very well disposed to the west but that may not last."

Some eastern European banks may quickly learn that a solution which originates in the West is not necessarily a good solution and that time saved on selection is often lost when it comes to implementing the system.

However, most of the banks

are not naive. Many will get it right and these will be the survivors.

The fledgling banks of eastern Europe are not hampered by the creaking systems of

many of their western counterparts and the more aware among them will not make the same mistakes. The hurdles are enormous, but so are the opportunities.

Automatic Teller Machines

Mature market in the walls

FEW DEVELOPMENTS in retail banking in the last two decades have been as popular with bank customers as automatic teller machines (ATMs).

Worldwide, there were 208,565 ATMs in operation in 1990, in a market dominated globally by Interbold, the marketing joint venture set up last year by IBM and Diebold, with a market share of 41 per cent. In the UK and the Irish Republic there are 17,396.

In Britain at least, the market is mature. Each ATM is expensive, costing around £25,000, and banks are more concerned with controlling their costs and improving the quality of their service these days than they are with increasing their ATM networks.

"ATMs have reached saturation point, at least as regards walls to put them into," says Mr Richard Barrow, general manager for business information systems at Halifax building society, which has 1,500 ATMs.

What growth there now is in the market comes chiefly from the installation of ATMs not in

'You are going to see more powerful ATMs doing more things in the next few years'

the high street but in supermarkets and garages. In Europe, lobby customer inquiry terminals are also growing strongly.

The British ATM market is dominated by NCR, whose 62 per cent market share is double that of Interbold, its nearest competitor. The global market looks as if it is settling down to accommodate three or four main suppliers, probably Interbold, NCR, Fujitsu, and possibly Olivetti, with fringe players dropping away.

ATMs themselves fall broadly speaking into two categories: the more intelligent ATMs, which control their own functionality with host authorisation, and the dumb terminals with all intelligence at central point.

At present, the two types are fairly evenly distributed, but there seems to be a gradual shift in the market to the view that it is easier to change facilities at the central level. The future may lie with the dumb terminals, linked to outside networks by interface packages such as Base 24.

Increasing volumes of transaction and improving quality dominate the perspectives of the large banks. With customers increasingly preferring to withdraw cash from their bank via an ATM rather than over a counter, volumes are soaring.

"We did about 280m transactions in our last year, of which 60m were balance inquiries," says Mr Bert Morris, NatWest chief executive for support services.

NatWest maintains a chain of 2,700 ATMs and has installed De La Rue rapid cash tills in large branches, which perform fewer functions but dispense cash more rapidly.

Mr Nigel Walsh, marketing director of the Software Partnership, says he believes ATMs are too driven by customer demand and therefore too little thinking has yet been done on how ATMs can be fitted into banks' marketing strategies.

"The UK ATM market is now mature, with the first generation of ATMs installed, but what we and the banks are now thinking about is how ATMs can complement other functions and how ATMs fit with the banks' overall strategy," Mr Walsh says.

One thing the banks have to decide is how fast they should move towards a common ATM network. It is only three years since Halifax decided to integrate its ATM network with

Link, the ATM network set up by building societies and the smaller banks. Since the emergence of the unified Link network, the UK has three ATM networks.

Mr John Hardy, Link's chief executive, would like to see a single national ATM network emerging. As yet this has not happened, though the two main bank ATM networks - Mint (Midland, NatWest, and TSB), and the Four Banks (Barclays, Lloyds, Royal Bank of Scotland, and Bank of Scotland) - may join forces in the foreseeable future. Letting in the smaller players of the Link network is a different matter.

Smaller players with limited branch networks benefit disproportionately from joining an ATM network (the four largest UK banks assume that ATM transactions between each other are roughly equal: should they be made to pay).

Each "foreign" transaction - made when a card holder draws money out of an ATM belonging to another bank or building society - costs the card issuer around £1.50. So far only Halifax has tried to deter its customers from foreign transactions by making a charge, currently 60p - but in the US, the practice is by now no means unusual.

Another way of bringing down costs is to push up the volumes of daily transactions on each ATM. Mr Hardy believes these could become several times higher than they are today.

Improved software is making this look increasingly possible. Lloyds and Midland both rely heavily on Base 24, a mainframe interface package developed by the company of the same name, to route transactions out of their ATMs from their mainframes into other networks such as Visa.

Mr Ron Price, Midland Bank managing director for technology, says: "Base 24 is used by us as gateway software from Tandem technology into IBM technology. We have hit some very good performances with our ATMs... We recently processed more than 1m transactions in 24 hours, the sort of thing never hit anywhere else before." A question over the way ahead is whether banks should be thinking of switching to a new generation of cash machine which accepts smart cards.

The Bull ATMs in France already make smart cards, enabling them to operate in an off-line authorisation mode. The prospects for a new generation

'ATMs have reached saturation point, at least as regards walls to put them into'

of British ATMs which do the same rests largely with NCR, which so far seems to have been somewhat cool about the idea, although Mr Taylor at NCR says he is looking at possibilities.

"I think you are going to see more powerful ATMs doing more things in the next few years," he says. This may have to wait until later in the decade. The life span of the average ATM is around seven years, and a large number of UK machines have been replaced recently, making it uneconomic to phase them out and replace them with newer variants.

At the moment NCR appears to be more concerned with less fundamental refinements, such as extending the graphics capacity of ATMs and introducing ATMs which can provide more information on their screens.

"The more attractive you make the screen, the greater the probability the services being offered on them will be taken up," says Mr Taylor.

David Barford

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COMPUTERS IN FINANCE 7

OPEN SYSTEMS

Lack of enthusiasm

BANKS AND financial services companies are in the forefront of information technology applications, yet financiers have been laggards when it comes to adopting "open systems", the standards-based systems that promise to enable different types and brands of computers to work together.

American banks, in particular, remain heavily dependent on proprietary mainframe computer systems and show little enthusiasm for the "open systems" trend that has swept through the computer industry over the past two years. Only 15 per cent of US banks have adopted an information processing strategy based upon "open systems" that run the Unix computer operating system, according to a survey conducted earlier this year by International Data Corporation, a US market research group.

Although an additional 16 per cent of US bankers surveyed said that they were "considering" the use of Unix systems, the vast majority

appears reluctant to switch from the proprietary systems currently in use. By contrast, 60 per cent of US business services companies said that they were pursuing a Unix-oriented open systems strategy, while over 40 per cent of retailers and manufacturers were adopting open systems.

Thirty per cent of US insurance companies and other financial services companies said that they were committed to open systems. The survey data reflect the heavy dependence of US banks on proprietary mainframe computer systems, says Mr Donald Bellomy, director of worldwide market studies at IDC. The banks have invested huge amounts in developing applications for existing systems, he notes, and most still do not trust critical applications to Unix systems. "There is still a negative reaction to Unix among US bankers," says Mr Bellomy.

Despite the growing popularity of the AT&T computer operating system in other

industry sectors, most banks are reluctant to transfer critical applications to "open systems" platforms. The financial services industry as a whole is, however, following the same path toward "open systems" as other industries, albeit more slowly. Mr Bellomy believes.

When it comes to new applications, the financial services industry has been quick to take advantage of the relatively low-cost computer power offered by Unix workstations. For Sun Microsystems, the leading manufacturer of Unix workstations, the financial services industry represents the fastest growing market sector with annual growth estimated at 100 per cent. Cumulative revenues from the securities,

Proportions of US industries adopting Unix-oriented open systems strategies

Industry	Pursuing	Considering
Banking	15.5%	15.9%
Insurance/other financial	30.4%	5.9%
Manufacturing/Industrial equipment	41.8%	1.9%
Business services	60.3%	0.8%
Retail	42.4%	3.1%
Wholesale	32.2%	12.0%

Source: International Data Corporation

insurance, banking and money management industries accounted for approximately 7 per cent of the company's revenues over the past year, or \$220m. Applications run on Sun workstations include securities trading, investment management, actuarial analysis, quantitative research and

insurance underwriting. Swiss Bank Corporation, in London, has constructed a trading room based on a network of more than 250 Sun workstations, while Mitsubishi Bank in Tokyo recently automated its trading floor with a system based on more than 400 workstations. The new system

enables the bank's traders to integrate video and digital information from internal and external sources simultaneously on a single workstation.

Few retail banks, however, are using "open systems" for branch automation and other critical applications. For most US banks, the choice is between Unix "open systems" and IBM's proprietary systems. While Unix systems are typically less expensive than IBM systems, they are less well proven and require a leap of faith that few bankers have been willing to make.

Most have so far chosen the "safe" path by sticking with IBM. Economic pressures are, however, forcing banks in the

US and Europe to consider "open systems". Moving by some of the leading suppliers of computers to the banking industry to embrace open systems are also influencing buyers NCR, Digital Equipment Corporation, Tandem Computers and Unisys, for example, are all offering open systems products, while IBM is placing new emphasis on open systems alternatives to its proprietary systems.

Past investments in developing applications for proprietary systems make many in the banking industry reluctant to change, despite competitive pressures. There are, however, exceptions. Fuji Bank of Japan, the third largest in the world, is building an open systems computer network at its Tokyo headquarters. The system is a "mainframe alternative" based on Hewlett-Packard minicomputers and terminals. It is geared to addressing customer queries.

Customer transaction data will automatically be fed into a relational database running on

HP minicomputers. Bank personnel will download the information to notebook personal computers or desktop terminals.

Fuji Bank sought "a cost-effective alternative to a mainframe that delivers optimum flexibility through open systems," says Mr Yoshitaka Tanaka, its senior director.

"Using the traditional mainframe approach to an information processing challenge of this magnitude would have required considerably more time to implement and cost significantly more to operate." For an increasing number of US banks, however, the rising cost and complexity of information technology management are leading to another alternative. According to IDC, 25 per cent of US banks are thinking of "outsourcing" their data processing systems. This compares to an average of 10 per cent of companies in other industries considering such a move.

Louise Kehoe

Michael Dempsey looks at smart card technology: the marriage of microchip and flexible friend

Put a lie detector in your pocket

SPIES PARACHUTED into Occupied Europe during the War clutching radio sets. If they were lucky, they survived to tap out messages in morse code. If they were captured and forced to reveal their codes, the enemy would attempt to plant false information using the same radio frequency and morse signal.

It was a subterfuge that failed. Morse code is tapped out by hand and every radio operator has a unique signature, a rate of keystrokes that cannot be replicated by another operator working in the same code. Bank employees keying in to high security systems will come to rely on the same principle in the near future. IBM has taken the idea of the individual hand and put it together with smart card technology, the marriage of microchip and plastic card.

Implanting a Hitachi chip with a generous memory into its latest smart cards has allowed IBM to extend the security facilities available. The credit card with brains has become the guardian of secrets.

IBM's Transaction Security System (TSS) relies on a smart card to limit terminal access in

sensitive areas. The Stock Exchange's \$60m project to replace paper share certificates with an electronic exchange, code-named Taurus, will use TSS to control access. A smart-card reader stands between the Taurus user and a secure communications workstation. The smart card chip serves to authenticate the user's personal identification number (Pin).

Now IBM researchers have gone a step further. The card user practises his signature with a pen attached to a com-

To repeat the speed and force of one individual's scrawled name would take a lot of training by that person

puter. This registers the speed and pressure with which the person signs his name. The exercise is repeated four times to give parameters, such as the extremes of one signature.

The user can log on with the card with or without the Pin. The most dedicated fraudster, one who knows the author-

ised card holder's Pin and has spent hours practising a false signature, will still be caught out. To repeat the speed and force of one individual's scrawled name would take a lot of training by that person, something spies understood 50 years ago.

Signatures, like fingerprints, are classified as biometric identifiers, unique personal characteristics. Voice recognition features are one avenue for smart card security.

Jim Mullen, director of Card Transaction Systems, has developed a voice code smart card that allows the user to change code words at will. The user stores his voice signature on the card's chip using a verification terminal with a microphone attached. He can enroll again, recording new passwords against a chip that already has his voice signature securely stored.

"If banks want to get rid of paper with Electronic Data Interchange (EDI) this is the way to make sure telephone contacts are authentic," says Mullen. Retail banks in France are convinced smart cards are the way ahead, and are already renewing every plastic card with a smart card from Bull.

By November 1992, 20m smart cards will be in circulation. French banks use one common network for retail transactions, all automated teller machines (ATM) and point of sale (Pos) card readers are linked. This accounts for the rise of the Gallic smart card. Banks had the means to supersede the familiar magnetic strip card quickly. Every payment will rely on a Pin, but for small transactions the card's own memory chip will suffice to tell the Pos reader that the user has sufficient funds.

Smart card purists say that this is a half-hearted use of the technology. With a big enough chip each card will contain a database of information about the holder's finances. Smart card visionaries speak of a distributed database, with files held not on a circuit of computers but in the wallets of the nation.

Barclays Bank has tried out Bull smart cards carrying extensive personal data. But rather than risk unproven technology on valuable customers it picked a surrogate environment. Dallington Sports Club is near to the bank's Northampton computer

centre and its membership proved effective guinea pigs for Barclays. Members booked squash courts and paid subscriptions with cards that also carried their medical records.

The two year experiment was not cheap, but canny Barclays planners knew that Bull had a vested interest in its success. "We shared the costs with Bull," says Steve Collins, project manager of Barclays card technologies team, "and we called in a lot of favours."

As Collins points out, the technology at Dallington has

Mailing out the cards left these delicate connections at the mercy of the Post Office's sorting equipment

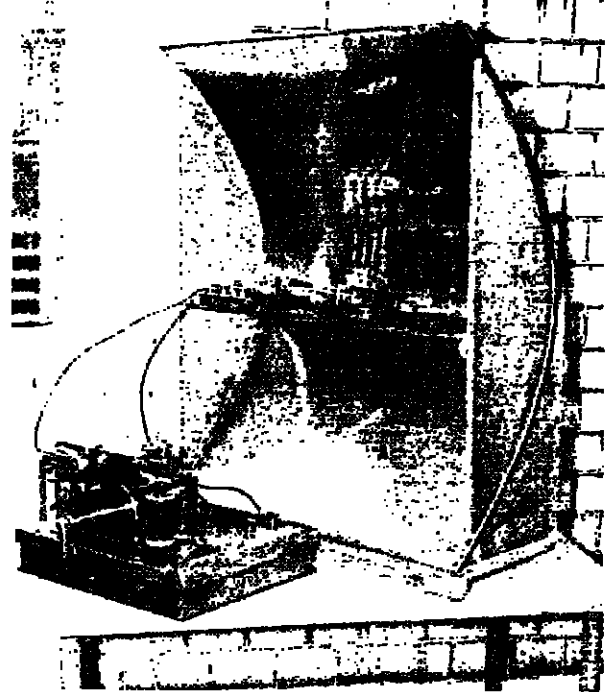
been around in its component parts for 15 years. What Barclays has just gained is an insight into very practical drawbacks of issuing a "computer on a card". The card chip is linked to the contacts that address Pos readers and ATMs by gold wires. These are so fine "they make

a human hair look like co-axial cable". Mailing out the cards left these delicate connections at the mercy of Post Office sorting equipment. Barclays refers to the resulting massacre as an era of "severe problems".

It emerged that cards would survive the Royal Mail if they were placed in the envelope with the contact plate facing forward. Collins is reticent about the precise direction that Barclays will take with smart cards. With financial transactions stored on a chip and the right reader attached to a PC the user could analyse personal bank statements.

If this sounds like a pedantic exercise for the average current account holder it offers relief to the High Street bank. Wary of computer error and fraud more and more customers are querying ATM and Pos transactions. Smart card holders will possess proof of transactions, and the chip will be retained long after ATM receipts have blown away.

There are two brakes on smart card development. The readers cost anywhere between £100 and £2,000. While all the players want to embrace the latest retail technology there is



From Morse code to smart cards: an early radio receiver

no race to cough up for thousands of smart card readers. The other problem is deciding on a biometric factor that can be relied upon to keep the customer both secure from fraud and happy with the system. When a voice card system rejects your application for a cash withdrawal the IT industry brands this a "false rejection". Bankers talk of an "insult rate".

Until a quick and clean recognition method is sorted out banks are reluctant to further alienate an increasingly stumpy client base. "We can't afford to upset people at the point of sale," says Collins.

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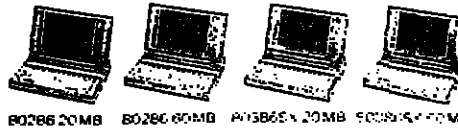
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COMPUTERS IN FINANCE 8



To promote the more productive banking services, banks' off-site ATMs are likely to see facilities limited to cash withdrawals and cheque book orders

Christopher Price looks at the development of teller machines

Banks change their direction

AS AUTOMATED Teller Machines (ATMs) have proliferated along Britain's high streets, the main clearing banks have begun to place the machines at off-site locations.

Already they are a common sight at out-of-town supermarkets and travel terminals, and soon motorway service stations, larger supermarkets and shopping malls will have ATM facilities.

This spread, however, has been limited by a decisive change of direction by the banks regarding their ATM operations.

During the 1970s and 1980s, the rise of the ATM had the desired effect for banks: cutting bank hall queues, reducing paperwork and freeing staff to concentrate on more productive work.

However, as banks have moved into more commission-based services, the need to be in direct contact with their

customers has taken on a new importance. Suddenly, the bothersome customer wanting a new cheque book is wanted back inside the bank, to be beguiled by offers of share dealing, insurance services and a whole range of investment opportunities.

Bank of Scotland has introduced a new Philips home banking console to customers at a cost of £100

To promote their more productive banking services, banks' off-site ATMs are for the immediate future likely to see facilities limited to cash withdrawals and cheque book orders.

The technology available for banks to offer new screen-based services far outstrips the

demands of UK banks. "Banking is somewhat conservative in this country," says Mr Geoff Tait, financial product marketing manager at NCR, a leading ATM equipment manufacturer. "What we can deliver and what is actually used by the banks is quite different. The US and the Continent are far ahead of the UK in the services an ATM can offer customers. There's a lot of trialling of equipment here - but remember, it took UK banks about five years of trials before they adopted ATMs."

One aspect of the banks' desire to adopt a more personal approach to attract customers is the introduction of telephone banking. FirstDirect, the UK's first purely telephone banking service, which opened three years ago, now has 150,000 accounts and says it is recruiting new customers at the rate of 200 a day.

It has eschewed develop-

ments towards home banking and computerised telephone services in favour of person-to-person banking, using the site services of its parent company Midland Bank to supplement its facilities.

"All our research shows us that people want a return to personal banking," says Mr Tony Williams, FirstDirect's communications director.

"We believe that the next two to three years will see telephone banking really take off in the UK. Most screen-based banking for customers has not succeeded, mainly because the target audience is too small. The average bank customer is not used to PCs - telephones are much more user-friendly."

After initial scepticism about FirstDirect's chances of success, other banks and building societies are beginning to show an interest in telephone banking. Last month, for example, National Westminster joined a

growing list of institutions when it launched a telephone banking service pilot programme, which while not a 24-hour service like FirstDirect, emphasised the fact that each customer in its "PrimeLine" scheme will have a personal account manager.

Some banks, such as NatWest and Royal Bank of Scotland, have also introduced an automated telephone service for the mundane aspects of banking such as bill paying and statements. These use telephone tone pads which connect the customer to the bank's computer.

Citicorp, owned by Citicorp of the US, has gone a stage further by the introduction of its "Enhanced Telephone" which features a small screen display underneath the dial pad.

Home banking schemes, where customers are connected to their banks via telephone lines to personal computers or modems have not made a great impact in Britain.

Dr Jim Carden, chief manager, automation research and development at the Bank of Scotland which has been pioneering a home banking service since 1986, describes it as "technophobia".

"Bank users are only just starting to feel comfortable

Suddenly, the bothersome customer wanting a new cheque book is wanted back inside the bank

with the technology needed for home banking," he says. Bank of Scotland has introduced a new Philips home banking console to customers at a cost of £100, or free to customers who hold £500 or more in their accounts for a minimum of two years. According to Carden, several thousand have been distributed in the past year.

The modems, which uses the Videotext service, allow customers to pay bills and move money around accounts. The bank, while not interested in offering other financial services, is holding discussions with other institutions with a view to extending the home banking service.

"The Bank of Scotland believes that machines have their place and we are content to let them deal with the day-to-day side of banking, like statement ordering and paying bills, while the personal side of banking is still our priority."

The attraction of home banking for regional banks such as the Bank of Scotland and some of the smaller building societies is that it allows it to develop a banking network without the cost of localised branches. Dr Carden believes that the demand for home banking will accelerate as other home computer services, such as shopping and faxing, grow.

■SWIFT: faces problems

The burning issue of supervision

LAST MONTH, as Swift executives stepped on to their aircraft for the annual user jamboree in Hong Kong, the new system, Swift 2, crashed spectacularly, leaving international payments in chaos for 13 hours. September 16 was the latest in a series of breakdowns that has forced a rethink on security and external supervision at the Society for Worldwide Interbank Financial Telecommunication.

Swift is the backbone of the world's payments system. Some 1.6m messages a day zip down its lines, supporting billions of pounds of business. Co-operatively owned by 3,000 banks, its 18-year history has been marked by growth, stability and occasional skirmishes between its shareholders and its rather more dynamic executive. But until Swift 2, the far-reaching project to replace the over-stretched existing system, never had its reliability been a cause for concern.

Swift 2, described as "possibly the largest IT project in the world", began the first stage of implementation last year. By September 1991 it had 68 per cent of traffic running on Swift 2, 54 per cent of which was on the full Swift 2 system, 46 per cent on Swift 1 emulation, a clever device that allows banks to plug in on their old system and have their messages automatically turned into Swift 2.

Herein lies the problem. Running in effect three systems (Swift 1, 2 and emulation) has put an enormous strain on the network. The project team hoped to avoid this by first bringing banks over slowly, then surging ahead to 70 per cent of traffic, and then tailing off to bring on the smaller banks. In that way they would have avoided a 50-50 split between Swift 2 and emulation. But delays in Swift 2 software releases from Swift's own vendor, STS, which has 70 per cent of the interface market, and from other independent vendors such as IBM, have forced banks to stay on emulation longer than necessary.

Compounded by the inevitable software bugs of a new system, has led to a number of crashes, of which at least three have seriously interfered with the smooth running of European domestic clearing and end-of-day settlement.

Mounting concerns have forced central bank regulators into action. A special team, the Swift Security Review Working Group, has been set up under the aegis of the G10 Group of Experts on Payments Systems, with a view to supervising Swift's audit procedures. Until now, Swift has assiduously fought international regulatory involvement. Its claim that it is a message switching service, not a real-time payment system, like Chaps, has protected it from central bank preoccupation with matters of systemic risk.

However, the difference has been hard to sustain in view of the impact of Swift crashes on payment systems, and the increasing role Swift is playing as a network provider to those domestic clearers.

On the surface, all the audit supervision means is that the six-man committee will come into the La Hulst headquarters, near Brussels, inspect the internal and external security audits and make recommendations, which Swift may or may not agree to. But its real significance runs much deeper. It re-examines the payment system, who controls Swift: the bank or the executive or international supervisors?

Swift is at a watershed. Mr Bessel Kok, its ebullient chief executive, leaves at the end of this year. For 15 years (the past seven as chief executive) Mr Kok has fought long and hard with his bank share holders for a "restructuring that would give us a small, strong board and a very, very strong executive." As a bid for autonomy, it failed. At almost every step Mr Kok was resisted from his attempt to get into non-core services such as risk management (Swift invariably messes them up) to the long

and painful process of getting new non-bank members on to the network.

Perhaps the bell finally tolled for Mr Kok when his proposal for a new category of participants - fund managers - was slapped down earlier this year in a flurry of competition and disintermediation fears.

With Mr Kok's departure, there is a clear sense that the banks are reasserting their control of Swift. Says Mr Eric Chilton, head of Barclays' electronic banking and a Swift board member: "In the past, Swift did things on its own initiative and we, the banks, followed. This must change and indeed, it is changing. Take, for example, EDI [electronic data interchange], the banks got together to talk about the business requirements, then we took it to Swift. This is the way it must work."

"But to do this, we need to have a more intelligent bank ownership, we need to stop seeing Swift as a technical project and get more senior bankers who can make strategic decisions, on board."

This latter comment is a sentiment that Swift would wholeheartedly share. Since its inception the society has suffered from the effects of over-delegation. EDI, because of its strategic importance to the very nature of banking (if corporates can send trade and even payment data between themselves, why do you need a bank?) has been one of the very few instances of a Swift issue being handled by top-level bankers.

Undoubtedly because of this, EDI has been one of the few success stories of 1991. The first live Swift EDI message

went out recently in an end-to-end transaction from Barclays. However, it was live only in the sense that it was not a test - the bank is still waiting for its four initial partner banks to come on line, to have someone to send messages to. Swift hopes to have 10 banks live by January next year.

Less happy has been the fate of Accord, Swift's confirmation matching and now, foreign exchange netting system. Its 26,000 confirmations a day are disappointing, agrees Mr Kok. He attributes the slow start to the banks' slipshod message formatting which has led to an unacceptably high level of mismatches.

More so, the product has a serious credibility problem after having been rejected by the European bank netting consortium, Echo (European clearing house organisation). The bank rejecting it were the same ones which had paid, through their tariffs, for the cost of developing it. Mr Kok, using one of his favourite expressions, would call it an example of the banks' left hand not knowing what their right hand was doing.

Mr Kok has bigger fish to fry as head of Belgacom, the soon-to-be-privatised Belgian telephone company. The choice of his successor has been caught up in the issues of control and accountability. Mr Kok's nominee was Mr Jacques Cerveau, a Swift long-timer, who is head of operations. The banking board have put him on hold while they explore possible outsiders. If there is a gift-wrapped opportunity for a management shake-up and a repositioning of Swift, it is this.

Samantha Laurie

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turning issue supervision



The onslaught that 'cosy' banks face

He believes that the accountants who have traditionally made up the banking profession now have to learn to become business managers - and that means acquiring an understanding of information technology. "We are at a watershed and it is time to be considered as a business manager, to talk of business managers who do not have IT management expertise. How can you be in charge of a business like this without skills in IT management? That is what it will mean to be a business manager in the future. Nothing

management. We already have the data but it is held in paper records. It is not in our electronic system."

Those four pointers indicate what to expect from the new era in the details of his plans remain closely under wraps. There is a certain urgency. US and Japanese banks have well publicised problems but they will recover. Mr de Feo reckons the window of opportunity for UK banks will stay open for only the next three years.

Alan Cane

As a newcomer to the computer market, Tandem also had to build in links to work with other established computers such as IBM's large mainframes or DEC's minicompu-

Internet's success stems from the early decision to base the Atlas applications software on an open architecture, which

The Atlas software was originally specified by an advisory board drawn from leading banks. The nine-strong board, which includes National Westminster Bank, Lloyds Bank, the Royal Bank of Canada and Soci t  G n rale, still meets

"The big players in the market are looking for front and back office integration so they can assess their position

"All banks are looking for ways to reduce costs. We can offer them one solution," says Ms Skerrett-Smith.

Philip Manchester



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COMPUTERS IN FINANCE 10

Restraint and caution

Continued from page one
Battelle notes: "As back office procedures are rationalised and consolidated, the role of the branch manager will change from branch administration to business development. This new manager's front line staff, branch-based and mobile, will have access to information via powerful intelligent terminals."

All of this means that systems developed for a different era will have to be rewritten for today's competitive conditions.

Mr Sei James, technology director for TSB retail banking and insurance says: "This is the most exciting time to be involved in electronic banking. We have to re-engineer the old systems and build them anew."

How this should be accomplished is an interesting question which cuts across the boundaries of business tactics and technology strategy. Many companies have a burdensome legacy of old computer systems slowing them down.

Batch systems, for example, are too slow to respond to the speed of change in today's market place. Such systems essentially held information on customers by account numbers rather than by customer profile. New systems to underpin new applications were added piecemeal with separate systems installed for each method of service delivery.

Mr Nigel Walsh, marketing director for the Software Partnership, a rapidly growing consultancy specialising in systems for all the various flavours of electronic banking told a recent conference: "Little thought was given to future service expansion, the addition of support for new networks and devices or how to offer the customer choice in how and where to use these services."

The Software Partnership solution, in use at Rabobank Nederland and the TSB in the UK, is a "delivery platform" a piece of software which separates banking products developed on diverse computer systems from the means of delivery - telephones, terminals, ATMs and so on.

Moving from old, often successful, systems to modern versions able to cope with today's pressures is always a nerve-racking business.

THE BANKING world was a very different place in 1982. The Big Bang and associated opportunities were on the horizon. A decade of profit beckoned.

Bankers should have been happy creatures. But bankers do not measure their lives by normal standards. Faced with administering the complexities of bank to bank and bank to corporate customer business, they shared a common displeasure.

The IT group at First Chicago Bank had already developed First, its own wholesale banking package. Other US banks reviewed the tools of the trade and decided that a new raft of computer software was needed to keep the wheels moving.

Insiders recall their mood. They were frustrated with large banking systems, phenomenally expensive computer programmes governing a multitude of functions behind retail banking and beyond the dealing room.

Since the 1970s a handful of comprehensive banking systems had dominated the world market. Kapitl, with an eponymous system, and BIS with Midas, are prime examples. Their products had grown as the clients discovered fresh business needs and the ability of computer resources to meet them.

From the IT industry perspective, the banks woke up to the power of data processing. The banks saw themselves as putting pressure on the IT suppliers to deliver. What emerged from Chicago was an agreement to sponsor yet another portmanteau banking system, but one that the banks themselves would control.

The founding fathers of this system were Continental, First Chicago and Lloyds Bank. A banking systems company, Internet, was formed to write, support and sell the product.

An Advisory Board, consisting of nine international banks including Nat West, Lloyds and Deutsche Bank, convened to steer the IT world's latest stab at comprehensive banking software. It meets in Chicago later this week after a tumultuous decade for banking and a successful era for Atlas, its technological protégé.

Atlas runs exclusively on



The National Westminster Bank dealing room: 'Atlas has tremendous flexibility when it's up and running, but the element of user choice makes the implementation demanding'

Tandem computers. With reserve components to guarantee continuous running through technical hitches the Tandem range is synonymous with banking.

The connection is formalised in Tom Perkins, chairman of both Internet and Tandem. Pat Hayward, European managing director of Internet, plays up the link. "We designed the system to take full advantage of Tandem. Atlas is a system designed for a market rather than one particular bank."

This approach gives the end user a lot of options to play with, rather than an institution's IT staff presenting the bankers who will drive the system on a day to day basis with a fait accompli.

At National Westminster Bank it arouses mixed feelings. When Nat West formed a group treasury and capital markets division it merged operations from County Nat West and its Lombard leasing and consumer finance wings.

The inheritance of systems was elderly and incoherent. Money markets were managed by a 20 year old programme written in veteran assembler code.

It was easy to identify priorities. "We had to replace old systems that were becoming increasingly difficult to maintain," says Tim Leslie, director of international operations, group treasury and finance. Nat West went for Atlas, but with its eyes open.

"It has tremendous flexibility when it's up and running, but the element of user choice makes the implementation demanding. You set up all the applications your users have on their shopping list."

With some initial help from management consultants Price Waterhouse, Nat West has kept control over the project. "A very sizeable cost" is the closest Leslie will come to discussing money. Atlas licences go for between £350,000 and £1m.

With hardware thrown in and potential future extensions

the installation will set the bank back by several million pounds. Settlement, accounting, financial and management reports are all covered. Integrated Banking System (IBS) is McDonnell Douglas's contribution to this technology, covering treasury and corporate banking.

IBS is looking after 30 users in Abbey National's treasury operation. In common with all software suppliers in the wholesale banking sector, McDonnell Douglas enjoys labelling its product modular. One senior source at Abbey National provides a brutal but accurate translation of this overworked term. "It means they can chop it up and sell us what they like."

Back office staff at the Abbey National find that when a deal cuts across the disciplines of securities, swaps and money markets a modular programme has its drawbacks. "The system looks at functions separately, you can't always

look at the whole deal at once," says Rod Parkinson, McDonnell Douglas' UK manager for banking and finance.

"The big change we see is the demand from our customer base for the option of going forward with whatever platform they desire. The market place has gone through a recession and is creeping out of it."

Internet's Hayward talks of architectural concepts chaining processors together. This is poaching on the hallowed turf of IBM, where architectures embrace all living things and Financial Applications Architecture (FAA) is the answer to the banker's prayers.

FAA began life as the Wholesale Banking Design Principle. But before WBDP could enter the lexicon of IBM acronyms wholesale was judged too ambiguous a term and FAA was born. "They want flexibility," Matt Durren, a banking consultant for IBM, says of banks. "If somebody invents a new financial instrument the

bank expects the technology to cope with it."

"The trick is to provide an overall umbrella that remains coherent throughout different applications."

The first implementation of the FAA principle is DataTrade, a software glue that binds different banking functions together. Industrial Bank of Japan (IBJ) in London is one of DataTrade's first customers. Jeremy Rees, director of IT at IBJ, has 200 personnel in securities trading relying on three large Stratus processors serving 200 PCs. The Stratus machines drive a securities application that is pushed on to the PC screens through the familiar form of the Lotus 1-2-3 spreadsheet.

DataTrade manages the passage of data from the Stratus processors to the PCs. This is called co-operative processing, using IT resources constructively to put a powerful but friendly tool on the end-user's desk.

Roger Hedges, a senior manager at BIS, characterises the world of co-operative processing as one in which end-users will deal only with friendly graphics-based systems. The serious processing will be hidden well away from bankers working at icon driven screens. While technical directions play their part, large banking programmes are changing in another area.

Pricing structures are under review. Kapitl's Equation can go from below £100,000 to over £1m. Costing used to be worked out on the basis of the main processor in the system. Big box, large cheque. In an era of hard bargaining this policy has given way to a workstation pricing policy. Installations are now billed by the number of workstations attached. In the current financial climate this looks very like a discreet price cut. "Banks need to be able to afford the tools," admits Kapitl's Paul Dodd.

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Tuesday November 12 1991

INSIDE

Barlow Rand picks up in second half

Barlow Rand, South Africa's largest industrial company, reported better than expected profits for the year to September, mainly because of a solid second-half performance. Turnover rose 10 per cent to R32bn (\$11.4bn), while operating income advanced 4 per cent to R2.57bn. However, earnings per share dropped 7 per cent to R4.308 - attributable profits were 6 per cent down at R606m - but this was an improvement on the 14 per cent fall in the first half. Page 28

Mexico's agricultural revolution

Many of Mexico's 3m communal farmers, who occupy half the country's agricultural land, are expected to sell up and head for the cities after last week's announcement of reforms to the country's antiquated agricultural sector. The proposed legislation scraps restrictions on the size of farms and clears the way for communal farmers to sell the rights to their plots. Page 34

Japan weakens world index

The strength of most world stock markets last week was sapped by a poor performance in Japan which suffered from fading hopes of a discount rate cut, and futures-related selling. In spite of healthy rises in Europe and a small advance in the US, the FT-Actuaries World Index fell 0.3 per cent in local currency terms. Page 46

Conflict fails to deter investors

The conflict between Serbia and Croatia has not kept Slovenians away from their own stock exchange in Ljubljana, the capital. Institutional and individual investors have pushed turnover to about DM1m (\$60m) a day from DM200,000 at the same time last year. Page 51

Pleasant ring from SIP shares

Users of SIP, Italy's state-owned telephone monopoly, are used to the daily lottery of wrong numbers and disconnected calls. But for investors, SIP's shares have a more pleasing ring. Long popular with foreign institutions, the company's stock has lately been one of the best performers on the Milan bourse. Page 28

Super start for German tabloid

Super!, the Burda-Murdoch tabloid German newspaper launched six months ago, is planning to expand its UK's £1bn photo-copy market. It came as no surprise to anyone in the industry. Cut-throat competition, few barriers to entry and stagnating market growth have long been characteristics of an industry becoming saturated by suppliers. Page 33

A market to copy

When the Monopolies and Mergers Commission last month cleared Rank Xerox of abusing its monopoly position in the UK's £1bn photocopy market, it came as no surprise to anyone in the industry. Cut-throat competition, few barriers to entry and stagnating market growth have long been characteristics of an industry becoming saturated by suppliers. Page 33

Farmyard flurry over pesticides

Most conventional farmers go on the defensive at the mention of pesticides. They know many people regard the chemicals as toxic and organic farmers seem to have claimed the moral high ground. But in spite of selling at higher prices, organic food seldom leaves adequate margins for either producers or retailers. Page 34

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Chief price changes yesterday

FRANKFURT (DM)		ENVIRONMENTAL	
Rhein	821 + 6	Pharm	16 + 3
Volkswagen AG	290 + 4	Pharm	25 + 1
Wella AG	618 + 4	Pharm	32 + 1
DAW	522.5 - 5.5	Pharm	32 + 1
Deutsche Bank	155 - 14	Pharm	850 + 82
Zander's Farm	281 - 5	Pharm	2240 + 240
NEW YORK (DOLLAR)		ENVIRONMENTAL	
Amgen	30 + 1	Pharm	1010 - 90
Amgen	49 + 4	Pharm	520 - 40
Amgen	21 + 1	Pharm	100 - 20
Amgen	21 + 1	Pharm	100 - 20

LONDON (Pence)		STOCKS	
Amgen	137 + 8	Shell	51 + 6
Amgen	86 + 7	Shell	94 + 4
Amgen	81 + 4	Shell	263 + 9
Amgen	823 + 4	Shell	91 1/2 - 23
Amgen	42 + 4	Shell	402 - 11
Amgen	67 + 4	Shell	148 - 6
Amgen	113 + 10	Shell	145 - 7
Amgen	229 + 7	Shell	145 - 7
Amgen	42 + 5	Shell	1124 - 36
Amgen	310 + 10	Shell	

Royal Insurance plans European alliance

By Robert Peston and Richard Lapper in London

ROYAL INSURANCE is in negotiations to raise several hundred million pounds in capital as part of a complicated deal which also involves the formation of a pan-European alliance with Aachener and Münchener Betelungs, Germany's third biggest insurer, and with Fondiaria of Italy.

The basis of the deal, according to a City financier with a close knowledge of the talks, is Royal's need to strengthen its balance sheet to make good the depletion of its resources caused by losses on mortgage indemnity policies. Aachener and Fondiaria are likely to inject new capital into Royal. However, they may not do this by a simple purchase of new ordinary shares. The UK insurer is also exploring the possibility of forming joint ventures with

them, perhaps involving its North American operations. Royal is likely to sell at least part of its 18.8 per cent stake in Aachener, probably to Fondiaria. "But there is far more to the deal than simply the sale of Royal's Aachener shares," said the financier. "The shareholding in Aachener has never been properly exploited." Morgan Grenfell, the London merchant bank

owned by Germany's Deutsche Bank, has recently been hired by Aachener to advise it on the deal. Royal's results for nine months to October 31 are due on Thursday. However, they are unlikely to disclose anything about the negotiations at that time. Instead Royal will give comprehensive details of its losses from mortgage indemnity policies. City analysts believe Royal's pre-tax

losses could be as high as £200m (£383.5m). Speculation about the extent of those losses has undermined its share price, which closed yesterday at 234p, down from a high for the year of 491p. Strategic links between European insurers are becoming more popular. Fondiaria and Aachener own about 5 per cent of each other and have a close working relationship. Mr Wolf-Dieter

Baumgartl, the chairman of Aachener's management board, is an enthusiastic advocate of forming such links rather than making takeover bids. "This is a much more intelligent way of expanding in Europe," he said earlier this year. Every partner would remain independent in its own market but elsewhere they would act as a single unit, he said.

British Steel shares hit by payout warning

By Andrew Baxter in London

SHARES in British Steel plunged almost 20 per cent yesterday after the privatised steelmaker announced a collapse in first-half pre-tax profits and warned investors about the level of its final dividend. The warning, accompanied by a gloomy statement on the business outlook, cast a pall over the London stock market and prompted the highest volume of trading in British Steel shares since dealings began in December 1988. The shares fell from 114p to a new low for 1991 of 92p.

British Steel's figures illustrate the pressure on the European steel industry as overcapacity and lower volumes prompt manufacturers to cut prices. The former secure domestic market shares, lowering prices generally. British Steel says the trend cannot continue without putting important capital investments at risk, and is already limiting new projects to those which have a rapid payback or which reflect the need for essential replacement equipment. Pre-tax profits for the six months ended September 28 dropped from £207m a year ear-

lier to £19m (£33.8m), with the recession in the UK economy and severe price weakness worldwide in all steel markets combining to bring a marked reduction in trading margins. Sir Robert Scholey, chairman, said there was no sign of any upturn in the group's major markets. He warned of further job cuts in the second half of the year, on top of the 4,500 job reductions in the first six months, reducing the UK workforce to 47,100. British Steel's first-half turnover fell from £2.51bn to £2.28bn,

and the pre-tax profits were struck after £42m of exceptional items, mainly due to redundancy and other rationalisation costs, compared with £15m a year earlier. Earnings per share fell from 11.85p to 0.65p, and the interim dividend was unchanged at 3p a share. But it was Sir Robert's remarks about the final dividend that unsettled investors. "The board believes that a marked improvement in trading prospects by the middle of next year will be needed to keep an appropriate balance between

operating cash flows, the investment requirements of the group, the cost of continuing rationalisation, the payment of dividends and the need to maintain a robust capital base," he said. The total dividend payment in 1990/91 was 8.75p a share. The company's proposed venture with Bethlehem Steel also looked at risk last night after British Steel said talks with the United Steelworkers union were making little progress. Bethlehem venture talks, Page 9; Lex, Page 24; London market report, Page 35

Belzbergs to lose control of First City

By Bernard Simon in Toronto

THE BELZBERG family, once among north America's foremost corporate raiders, is about to lose control of its debt-burdened flagship company, First City Financial.

First City's shareholders, including family patriarch Mr Sam Belzberg, yesterday in Toronto approved a restructuring plan giving holders of C\$305m (US\$274.7m) of Swiss franc bonds and other creditors an 80 per cent equity stake in the company.

The plan requires court approval, expected early next month. The restructuring will shrink the Belzberg family's stake in First City from 80 per cent to 15.2 per cent. However, the remainder of the company will probably continue to be run by Mr Sam Belzberg's nephew, Mr Brent Belzberg.

The three Belzberg brothers, Sam, Bill and Hyman, ventured beyond their core property and financial services businesses in the mid-1980s with corporate "greenmail" forays, including an abortive attempt with Texan corporate raider Mr T. Boone Pickens to take over Gulf Oil.

However, the property slump and a mounting failure rate in takeover battles left First City unable to service its debt. The company lost C\$320.6m in the first half of this year, mainly because of hefty writedowns. First City's term debt totalled C\$1.4bn on June 30. Under the restructuring plan, creditors will exchange C\$305m in debt for their equity stake in a new company called Harrowston as well as C\$100m in Harrowston notes.

First City's chief assets are its 90 per cent interest in First City Trust, a mid-sized Canadian financial institution, and property holdings. Under Mr Brent Belzberg's more conservative leadership, the company has indicated it will try to sell off most of its remaining assets to realise some residual value for shareholders.

From deep in the forest, a cry of woe

A report by John Burton in Stockholm, Bernard Simon in Toronto and Paul Abrahams in London

A BLEAK winter has set in for the forestry, paper and pulp industries. Fierce price-cutting, idle machines and a sea of red ink are hitting European and North American companies hard in this highly cyclical sector. In Europe, where the industry plunged into recession later than in the US, depressed markets show no sign of recovery and some one-stronger markets are now starting to slow. In North America, the first glimmers of a recovery are appearing, but the upswing is likely to be slow and spotty, with Canadian producers particularly badly hit.

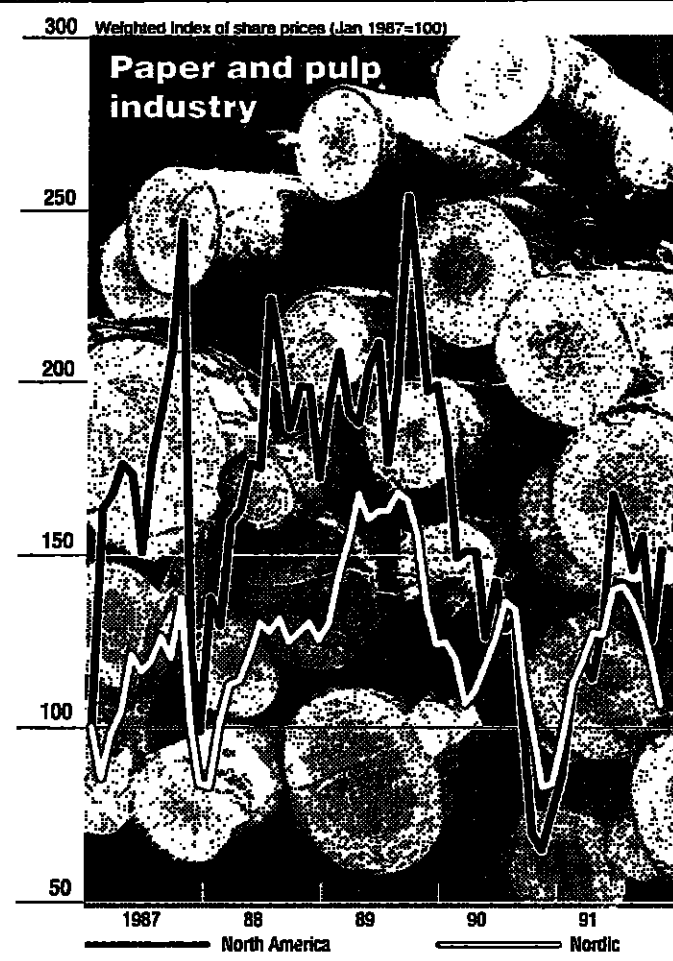
The depressed European markets are the UK, Italy, France and the Benelux countries. Hitherto stronger areas, such as Scandinavia and Germany, are also now beginning to feel the effects of recession, according to Mr Bo Berggren, president of Stora, the Swedish paper and pulp group. "We'll have wait the next three, four or even five quarters before an upturn," he says. "The crystal ball is still far from clear."

Given poor demand and overcapacity, earnings by Swedish concerns, such as Stora, SCA and MoDo, are expected to drop by 75 per cent this year to SKr2bn (£333m) from SKr8bn a year ago. Swedish companies were only partly successful in restructuring their operations during the late 1980s by concentrating on higher-valued paper products and reducing their dependence on pulp, which is more sensitive to price swings.

Both Stora and SCA now say, however, that all the pulp they produce is consumed internally - one reason why these two have done better than their big competitors. Overcapacity in North America poses another problem for Swedish producers. US and Canadian companies have used the advantage of a cheaper dollar to increase exports of pulp, kraftliner and newsprint - markets in which the Swedes are Europe's main producers.

Sales of Canadian newsprint increased by more than 60 per cent between June and August this year compared with the same period in 1990, according to

But relief that the worst may be over is tempered by expectations that the upswing will be slow, patchy and, in the case of pulp and newsprint, delayed until well into 1992. Canadian producers, once among the giants of the pulp and newsprint industry, will be gasping for breath for years to come. Every big Canadian company suffered a third quarter loss. In the short term, the Canadian industry's competitive edge has been blunted by a strong currency, high labour costs and outdated machinery.



and a sharp fall in timber sales to the depressed construction industry. Finland's four biggest forestry companies - Bepola, Kymmene, Enso-Gutzeit and Metas - reported combined losses of FM2.15bn (£37.5m) for the first eight months of 1991.

Kleinwort Benson predicts that the next earnings peak for Nordic forestry companies will occur in 1994-95 as a stronger dollar curbs North American exports, and restructuring brings Nordic production costs in line with their principal competitors.

Meanwhile, in North America, the first glimmers of a recovery are now appearing. Prices of some paper grades have edged up in recent months, and production is slowly expanding.

"In pulp and paper we believe we have passed the low point of the recession and business is turning up," said Mr Marshall Hahn, chief executive of Georgia-Pacific, the continent's second-biggest forestry group, a few weeks ago when he reported a \$27m third-quarter loss.

The Securities and Investments Board, the overall regulator for the City of London's securities markets, allows the practice, but only within tightly defined rules. The stabilisation will consist of two stages. First, the bank may allocate to institutional investors more shares than the government plans to sell. It will be able to allocate up to 15 per cent of the institutional share offer - equivalent to about £400m.

In the second stage, it may buy the shares back for a month after the sale if the share price falls as a result of "undue selling pressure". But if the shares go to a premium, SG Warburg will not buy back the extra shares and so the government will end up selling a larger stake than planned. The government intends to sell about £5.5bn of stock, with the stabilisation option taking it to

UK plan to buy back BT shares

By Hugo Dixon and Roland Rudd in London

THE UK government may buy back up to £400m (£712m) of BT shares to minimise the chances of the share price falling after next month's sale.

The intention is to protect long-term investors from the share price being driven low by short-term speculators.

SG Warburg, the government's lead adviser, said the mechanism was common practice in international equity offers and UK convertible share issues. It had not been used in previous privatisations because these were fixed-price offers, unlike the BT sale where the price will be set by tender at the end of the marketing process.

The mechanism, known as "stabilisation", is likely to prove controversial, as it amounts to a legalised form of price manipulation.

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INTERNATIONAL COMPANIES AND FINANCE

BAe to sell parts unit in refocusing strategy

By Paul Betts, Aerospace Correspondent, in London

BRITISH Aerospace is to sell an aircraft components subsidiary in Hampshire, southern England, which employs 1,700 people.

BAe is selling Aerostructures Hamble (AHL) because it regards the unit as a peripheral activity which no longer fits with the group's strategic objectives.

BAe set up AHL in 1989 as a separate company producing parts for BAe aircraft programmes and outside customers such as Saab, the Swedish aircraft-maker, and Westland, the UK helicopter group.

BAe said the company, which has yearly sales of £80m (£107m), was expected to be sold by competitive tender early next year.

Several potential buyers are understood to have shown interest, and BAe did not rule out the possibility of an overseas purchaser.

BAe said in a note to the subsidiary's employees that the company's recent rights

issue prospectus had outlined the strategy of selling certain peripheral activities as part of a rationalisation programme.

Core businesses include its defence and civil aerospace activities, its Rover car operations and property interests.

BAe has indicated it is seeking partners for its regional and commuter aircraft operations.

BAe unions said their first reaction was to oppose the sale of AHL, and they were seeking urgent meetings with BAe management.

BAe has told AHL employees that the subsidiary will be sold as a going concern.

AHL has contracts to supply components to other parts of BAe for the next three years.

After initial bids have been received, a short-list of buyers will be involved in detailed negotiations with the aim of completing the sale by the first quarter of next year.

German drugs group takes 55% of Dutch wholesaler

By Ronald van de Krol in Amsterdam

FERD. SCHULZE, a privately-held German pharmaceutical wholesaler, plans to pump £160m (£32m) into Medicopharma of the Netherlands, giving it a stake of more than 55 per cent in the ailing, bourse-listed Dutch pharmaceutical wholesaler.

Medicopharma's financial problems led it to close its operations in the UK last week.

Schulze intends to buy £160m worth of new shares in Medicopharma at £13.50 each

compared with yesterday's closing price of £17.10. Trading in Medicopharma's shares had been suspended last week ahead of yesterday's announcement.

Following its UK divestment, Medicopharma has annual sales of £180m and a workforce of 1,000.

Schulze, which has annual turnover of DM2.5bn (£1.58bn), already owns a minority stake in ACP, another leading Dutch pharmaceutical wholesaler.

Two parts of Zeiss rejoin after 45 years

By Andrew Fisher in Frankfurt

CARL ZEISS, the German optical company with one of the country's best-known industrial names, has been reunited after 45 years as two parts.

Control of the east German company, Carl Zeiss Jena, has passed to the west German concern, Carl Zeiss, which built itself from scratch in the small town of Oberkochen after the post-Second World War division.

"There is only one Zeiss worldwide", said Mr Horst Skoludek, chief executive of the west German company, after talking yesterday of the contract signed at the end of last week. "Carl Zeiss Jena is no longer a competitor."

Carl Zeiss, Oberkochen, which is owned by a foundation, has acquired 51 per cent of Carl Zeiss Jena for a nominal DM1 from the Treuhand, east Germany's privatisation agency. The rest is held by the east German state of Thuringia, in which Jena is located.

Jena is the original headquarters of Zeiss, from which its top managers and scientists fled to the west in 1945 when Thuringia was transferred to Soviet occupation after its liberation by US troops.

The reunification of the two operations has created a company with a turnover of DM2.5bn (£1.5bn), of which only DM200m will stem from east Germany next year. Zeiss Oberkochen, which employs 14,400 people, will take over 3,000 Zeiss Jena employees.

Thuringia's stake is held through Jenoptik, the company formed to take over the non-optical interests of the east German Zeiss, which built up electronic and military interests under the old East Berlin regime. It employed 69,000 people.

To finance the east German Zeiss's new beginning as part of west German Zeiss, the Treuhand is providing funds of DM587m. In five years, Mr Skoludek hopes that Zeiss's east German turnover will reach DM350m. He said Jena would not be used just as an assembly operation.

Phone service aims to leap into the 1990s

Haig Simonian on state investment efforts to update Italy's antiquated telecoms system

USERS of SIP, Italy's state-owned telephone monopoly, are used to the daily lottery of wrong numbers and disconnected calls that are symptomatic of years of under-investment and mismanagement of the network.

Yet for investors, SIP's ordinary and savings shares, which are partly-quoted, have a more pleasing ring. Popular with foreign institutions, the company's stock has lately been one of the best performers on the Milan bourse.

SIP's appeal rests on increasing profit expectations on the back of long-awaited tariff increases and technological improvements. First-half operating profits surged by 54 per cent to L694.5bn (£468m), while turnover climbed 16 per cent to L9,460bn.

Earnings will not maintain the same pace for the whole year as the second half is usually slower, says Mr Ernesto Pascale, SIP's chairman. However, analysts expect this year's net profits at least to recover to the L471bn made in 1989, after dipping to L401.6bn last year. A higher dividend is also likely, although analysts are divided as to whether that will come this year or in 1992.

Mr Pascale, who took over in May, will only reveal that earnings "will be positive and better than the previous year".

Closer to his heart is the need to reorganise Italy's telecoms sector if SIP is to deliver its full financial potential, let alone offer a decent service. For Mr Pascale, the crux lies in the long-awaited reshuffling of responsibilities between SIP and ASST, the government agency responsible for inter-city telephone links.

At present, SIP handles just the urban end of domestic calls, so a call from Milan to

Rome starts and ends on SIP lines, but travels along ASST cables between.

SIP's L44,000bn four-year drive to install digital exchanges and fibre-optic links should help improve services, particularly in Italy's three biggest cities of Rome, Milan and Naples. But its spending is of

successful meeting with unions last week, SIP hopes the measure will be approved soon.

If so, it will remove one element of Italy's extraordinarily fragmented telecoms system, where three separate monopolies, apart from ASST, handle different segments of the business. Italcable and Telespazio

say Mr Pascale. The company is striving to make up for years of neglect to regain the position it held in the early 1970s, when Italy's phones were on a par with most European neighbours, he says.

While France and Germany ploughed money into telecoms thereafter, SIP was tied to a low investments, low tariffs policy which was exacerbated by Italy's hyper-inflation at the time. Public-sector investment was partially frozen and tariffs were kept low to combat inflation and appease voters.

He wants to catch up on both tariffs and investment. The L5,000bn-a-year 1988-91 investment plan has been stepped up to L11,000bn yearly for 1992-95. SIP also aims to increase the number of subscribers from the end-1990 figure of 38.7 per 100 inhabitants - low compared with the UK or Germany.

The company needs both higher charges and greater borrowing to finance the programme. Shareholders will also have to bear some burden, although many will balk at another jumbo rights issue after SIP's L1,200bn and L883bn cash calls in the past two years. However, Mr Pascale hints that a further rights issue is likely during the life of the investment programme.

SIP's current price structure is highly cross-subsidised, with some of Europe's most expensive inter-city calls making up for cheap local tariffs. And domestic line rental is also a bargain.

In January, SIP took its first step to realign charges, with a 5 per cent average increase. "We have barely begun," says Mr Pascale. He would like to see a further 5 per cent average

rise next year.

However, SIP will have to break out of a government straitjacket on tariffs first. It wants to negotiate a long-term agreement with ministers, giving it freedom to raise charges within set limits over three years, subject to meeting quality and productivity targets.

Like the ASST link, that awaits government approval. Mr Pascale claims that the greater freedom will eventually allow SIP to pass on the fruits of its investment programme to customers in terms of lower prices and better services.

Assuming 6 per cent inflation in 1992 and 5 per cent in 1993, SIP plans to keep its price rise to 1 per cent in 1993 and "hopes to reduce" prices in 1994-95, he says.

That may be a tall order, considering the competition facing the group.

For example, this year Mr Carlo Vizzini, the telecoms minister, outlined plans to open the mobile communications market, now a SIP monopoly, to outside competition.

Portable telephones have proved an unexpectedly sudden money-spinner for SIP. Undaunted by a swingeing L300,000 tax, demand has rocketed with a 200 per cent rise in the number of subscribers this year. There are now about 500,000 portable phones in use, and SIP envisages 1.3m by the end of 1994.

Mr Pascale will not disclose how profitable the new business has been for SIP. But his fighting talk about not conceding SIP's contractual right to run Italy's phone service free of competition until 2004 without compensation is an indication of how popular, and lucrative, portable phones have become.



Ernesto Pascale: pulling SIP out of a tariff straitjacket

limited value when trunk calls are ASST's responsibility. "SIP is investing much more than ASST, and there hasn't been much co-ordination", says one industry analyst.

A 1988 bill to abolish ASST reached parliament this year. Approval seemed within reach in October, but debate was postponed following last-minute amendments. But after a

handle international connections and satellite links respectively. All three are owned by STET, the quoted holding company, in turn owned by the IRI state holding company.

Confidence about the financial benefits of SIP's huge investment plan has also supported its share price. "Only Germany is spending more, and that includes the east",

Taiwan airline flies to Europe

EVA Air, the recently-established Taiwanese airline, will today launch its first service between Taiwan and Europe, intensifying competition on Europe to Asia-Pacific routes, writes Paul Betts.

EVA, owned by the shipping group Evergreen Marine Corporation, is starting its European services with two direct flights a week between Taipei and Vienna. Several Asia-Pa-

cific carriers, including Singapore Airlines and Thai International, are using Vienna as a gateway for their European services.

The move is likely to increase competition for Lufthansa, the Vienna-based airline owned by Mr Niki Lauda, which has concentrated in building up a network of scheduled services to the Asia-Pacific region.

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Cypriots buy into Ulster bottler

HELLENIC Bottling Company (HBC), the Cypriot-owned company which holds the Coca-Cola franchise for Greece, the Irish republic and Nigeria, is to pay \$9.25m (\$16.5m) for a 55 per cent stake in Coca-Cola Bottlers Ulster (CCBU), writes Kerin Hope in Athens.

Main shareholders of CCBU, which produces and distributes Coca-Cola in Northern Ireland, are the Leventis group of Cyprus, which controls HBC, and the Robinson family group.

around £5m for 1991 on sales of £42m.

HBC is also holding talks with several Bulgarian soft drinks manufacturers on setting up a joint venture to launch Coca-Cola in Bulgaria.

The company would hold a controlling stake in the venture, provide over 50 per cent of start-up capital and take charge of management. At least five Bulgarian companies are interested, but no agreement can be reached until the legal framework for foreign investment in Bulgaria is clarified.

Fiat to hive off Ford New Holland

By Andrew Baxter

FIAT, Italy's largest private sector company, has clarified the position of the Ford New Holland construction equipment business in the potential three-way European venture that includes Japan's Hitachi Construction Machinery and Deere of the US.

The Ford New Holland business is to be hived off from the Fiat-controlled NH Geotech agricultural and earthmoving equipment group, with the

much larger Fiatallis and Fiat-Hitachi businesses.

But Ford New Holland, which mainly produces backhoe loaders and skid-steer loaders, will be kept separate from the potential Fiat/Deere/Hitachi venture.

Fiat had already made clear last week that the new arrangement would maintain the brands and distribution networks currently in operation.

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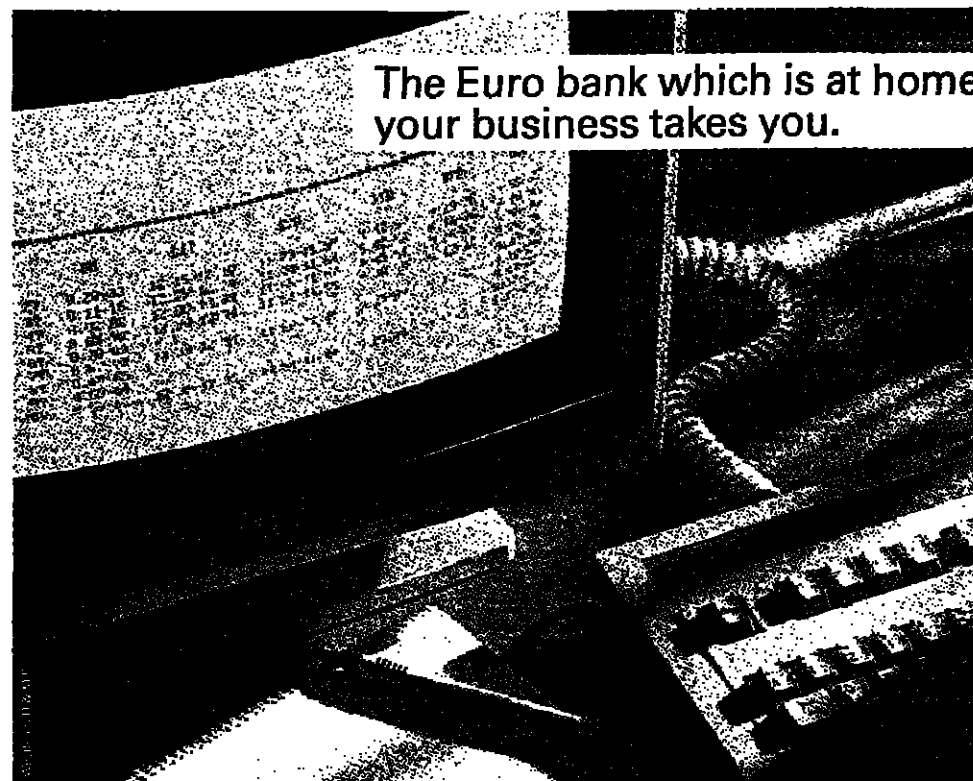
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INTERNATIONAL COMPANIES AND FINANCE

Barlow Rand better than expected

By Philip Gawth in Johannesburg

A SOLID second-half performance saw Barlow Rand, South Africa's largest industrial company, report better-than-expected profits for the year to September.

Turnover rose 10 per cent to R22bn (\$11.4bn), while operating income advanced 4 per cent to R2.57bn.

But earnings per share dropped 7 per cent to R4.309 - attributable profits were 6 per cent down at R806m. This, however, was an improvement on the 14 per cent fall in the first half, which analysts had expected to be repeated.

Increased interest charges and a rise in profits attributable to outside shareholders were the main reasons for the lower profits.

Mr Warren Clewlow, executive chairman, said the results were "pleasing" given the political unrest and an economy showing negative growth.

The year saw the resolution of two issues: the disposal of under-performing mining assets in the Rand Mines subsidiary, and the reduction of the effect of a downturn at wholly-owned Middelburg Steel and Alloys (MS&A).

Rand Mines is now a debt-free coal house, having sold forestry and chrome interests and most of its stake in the troubled Barplats platinum group.

Barlow Rand also accepted an offer in September from an Anglo American/Gencor consortium to purchase MS&A for R1.075bn. Mr Clewlow said this deal provided Barlow with cash which could be used for "something new". He said discussions concerning several acquisitions were under way.

Extraordinary losses of R433m related mainly to Rand

Mines where the principal write-off related to the investment at Barplats, which was written down to market value.

In the group's industrial activities, firm demand for consumer goods was matched by a slowdown in the capital goods markets. Mr Clewlow said he was pleased by the performance of J. Bibby, the UK-based subsidiary.

The dividend was maintained at 170 cents a share. Shareholders have been offered, for the first time, the choice of receiving the final dividend in cash or shares.

Murdoch boosts eastern exposure

Raymond Snoddy on the plans for Germany's new tabloid newspaper

SUPER! ZEITUNG, the new Burda-Murdoch tabloid newspaper aimed at the people in what used to be East Germany, is planning to expand after only six months publication. Sales of the paper launched in May from the offices of the old East German propaganda service, the ADM news agency, have already topped 500,000 on three occasions and are averaging around 450,000 copies an issue.

The paper has ladies' large breasts on page one - along with bingos on page three, and sometimes several other pages as well, and a daily feature is the Orgasmus Report 91. But Super! also carries hard-hitting stories exposing high-ranking members of the Stasi, the former East German secret police, and the health threat posed by asbestos in an estimated 2m flats in the east.

"This is journalism of the heart, the heart and sometimes a bit of the stomach, too," says Super! editor Mr Peter Bartels, who came from Bild, the broadsheet paper with tabloid values which has been challenged in the east by the new title. Super!, which costs 30 pfennigs, claims it now has a bigger circulation in the east than the 80 pfennig Bild, although that is disputed.



Super! may produce a separate edition for Berlin

Senior editorial staff of Super! are now planning separate editions for Berlin which could be launched within a few months if formal permission is given. There are also plans to turn Super! into a seven-day operation by publishing a Sunday paper to challenge Bild in the east.

Dr Hubert Burda, the German publisher, and Mr Rupert Murdoch, chief executive of News Corporation - Super! is a 50-50 joint venture - have yet to take a decision on whether or when Super! should expand.

"Burda wants it. Murdoch is a bit of a reluctant debutante," said Dr Karsten Schmidt, director of international operations for News International.

A separate edition is almost certainly needed if Super!

wants to increase its circulation in Berlin. The newspaper's main selling point is that it has been set up specifically to represent the interests of the people in the east and it hardly sells at all in what used to be West Germany. Many of the stories, for instance, offer advice on how to claim heating allowances or how to cope with rent increases.

There is a longer term hope that one day Super! could become a national German newspaper, but that seems years off. "If the east-west discrepancies vanish then we would have to adapt and that is when we go national," said Dr Schmidt.

Super! was launched with remarkable speed and in extraordinary circumstances.

An enormous disused factory which made pre-fabricated cement sections for housing 25km from Berlin was bought in December. It was transformed into a printing plant in less than six months complete with 15-year-old surplus colour presses from the Yorkshire Post and the latest computer printing technology.

East German cement workers were turned into printers. First they went on a crash course in English and then were off to Rupert Murdoch's London headquarters at Wapping to learn to be printers.

As plans for expansion of Super!, which has involved an investment of up to DM200m (\$123.4m), are given serious consideration Rupert Murdoch has another east European weapon waiting in reserve.

If further opportunities to launch newspapers in eastern Europe or the Soviet Union come up, Mr Murdoch can move immediately with 48 serviceable presses recently replaced at Wapping.

"The presses are in boxes and it wouldn't cost us a penny. But we have not decided whether to do it or where to do it," said Dr Schmidt.

Digital to expand in Europe

By Louise Kehoe in San Francisco

DIGITAL Equipment, the world's second largest computer manufacturer, aims to strengthen its role in the \$17bn market for computers used by small and medium-sized businesses in Europe by forming a new group of marketing, sales and service companies.

The formation of the Digital Equipment Enterprise group follows the completion yesterday of Digital's acquisition of most of Philips' Information Systems Division operations. By the end of November, the US company will have established Digital Equipment Enterprise companies in the UK, Germany, France, Spain, Austria, Switzerland, the Netherlands, Belgium and

Italy, with Scandinavia to follow. The new marketing units will operate alongside Digital's existing European subsidiaries which will focus on large accounts.

"Digital Equipment Enterprises will be mainly a sales, marketing and services company with around 70 per cent of its business coming through indirect, value-added channels," said Mr Wolfgang Jaeger, Digital's vice-president of SME (small and medium-size enterprises) in Europe.

Digital is also planning a new thrust in the European banking market, based upon products acquired from Philips. Included in the acquisition is the full range of Philips retail

banking software applications, hardware products and services. It also includes Philips' activities in small and medium enterprise products and services.

Philips has retained its activities in the field of dictation systems and smart cards, as well as manufacturing operations in Eindhoven, in Germany, and Apeldoorn, in the Netherlands.

About 7,000 employees will be transferred from Philips to Digital as a result of the agreement. Philips and Digital also reconfirmed their agreement to explore other possibilities for co-operation in areas such as document processing, imaging and personal computers.

Power Corp tumbles 31% to C\$104m

By Robert Gibbens in Montreal

POWER Corp of Canada, the senior holding company of Montreal financier Mr Paul Desmarais, suffered a 31 per cent decline in nine-month earnings because of lower interest income and currency adjustments.

It saw profits decline to C\$103.9m (US\$83.6m), or 77 cents a share, from C\$150.7m, or C\$1.14 a share, a year earlier.

Power Financial, the 70 per cent-owned financial services and industrial holding com-

pany, through which Mr Desmarais controls 25 per cent of Geneva's Pargesa, saw net profit for the nine months fall to C\$129m, or C\$1.43 a share, a decline of 22 per cent from a year earlier.

The fall was mainly due to lower contributions from its life insurance subsidiary and from its communications and forest products investments.

Power Corp's third-quarter profit was down 18 per cent and Power Financial's declined by 7 per cent.

Domtar, the Canadian pulp and paper and building material group, recorded a net loss of C\$104m, or C\$1.26 a share, for the first nine months, against a loss of C\$31m, or 47 cents a share, a year earlier. Sales for the period were C\$1.37bn, down 18 per cent.

The third-quarter loss was C\$39m, or 44 cents a share, against a loss of C\$32m, or 29 cents a share, a year earlier, on sales of C\$454m, down 16 per cent.

HK extends electricity agreement

By Angus Foster in Hong Kong

HONG Kong has approved in principle a 15-year extension to the scheme of control agreement with China Light and Power and Exxon Energy, the joint venture with monopoly rights to supply electricity to Kowloon, the New Territories and the island of Lantau.

The scheme, which runs

from September 1993, is essentially unchanged and permitted profits for shareholders will remain between 13.5 per cent and 15 per cent of average net fixed assets. The governments will introduce requirements for the companies to develop programmes aimed at energy conservation.

PLAN TO ATTEND THE FIRST LONDON CONFERENCE ON INVESTMENT OPPORTUNITIES IN THE BAHAMAS

"CHARTING A NEW COURSE"

Thursday, November 21, 1991 * 9:00am - 11:00am

Grosvenor House Hotel

86 Park Lane, London W1A 3AA, England

The Government of The Bahamas has enacted far-reaching legislation which greatly enhances the outstanding advantages of investing, private banking, private and commercial ship registration, captive insurance, and assets management in The Bahamas. A distinguished panel of speakers from government and private sectors will discuss the ways private and institutional investors can benefit from these new policies.

If you are an investor, a company looking to expand internationally, or if you are involved in the financial services sector - a banker, broker, analyst, accountant, attorney - then we invite you to join us to discover how you - and/or client - can profit with us The Bahamas.

Space is limited. Register early by phone or fax.

Contact:

Mr Raymond Demes

Bahamas/Turkey Office

Tel: 71 629 3238

Fax: 71 491 9311

THE BAHAMAS... THE FIRST NAME IN INTERNATIONAL FINANCE

Zenith to cut 600 jobs in Taiwan

By Barbara Durr in Chicago

ZENITH Electronics of the US is to stop making monochrome computer monitors at its Taiwan plant, with the loss of about 600 jobs. It will retain a small staff to operate a purchasing office there.

The company said its sourcing from Taiwan for picture tubes and other components will continue to amount to "millions of dollars".

But the decision to restructure its Taiwanese operations is part of a plan to consolidate assembly of computer monitors and televisions in Mexico by next spring.

Zenith, the last US maker of televisions, has been operating in Mexico for 20 years and "we've been consolidating our operations there over that time," said a spokesman.

The company said last month it would shift 1,200 of 1,600 jobs at a Springfield, Missouri, television assembly plant to Mexico.

The company is trying to cut costs dramatically following several dismal years of losses. For the first nine months of this year, it reported losses of \$52.1m, or \$1.82 a share, about double the losses for the same period in 1990.

Remy
& ASSOCIES

REMY COINTREAU: CREATION OF A MAJOR, PUBLICLY-QUOTED WINES AND SPIRITS COMPANY

A meeting of the Board of Directors of Remy & Associates was held on 6 November 1991 to examine and approve the procedures involved in merging the two companies. The proposed merger will be submitted to shareholders of the respective companies at Extraordinary General Meetings to be held on 16 December 1991.

The consolidation of Remy & Associates with Remy & Associates will enable all the Group's businesses to be brought into one large, publicly-quoted company. In addition, it will give current shareholders of Remy & Associates a 31% shareholding in the newly merged company, Remy Cointreau.

Shareholders of Remy & Associates will receive one Remy Cointreau share for each Remy & Associates share. The proposal has been approved at the Extraordinary General Meetings on 16 December.

After exclusion of the "cross-shareholding" voting rights, "shareholders" voting rights other than those of Remy (the holding company controlled by the Heintz Dubouche family) will amount to 44.2%.

The new company, Remy Cointreau, will be listed on the Paris and Frankfurt stock exchanges on 24 December 1991. Remy Cointreau will then replace Remy & Associates, subject to the stock exchange regulatory authorities having given their final approval.

In the financial year ended 31 March 1991, turnover for the newly merged company Remy Cointreau would have been FRF 6.5 billion and profit (Group) turnover would have been FRF 214 million. The dividend per share of the new company should therefore show an increase for the current year, compared with the dividend per share for Remy & Associates in the previous financial year.

At the time of this restructuring, the Group also plans to consolidate the various champagne production businesses, notably Krug, within Remy Cointreau, which is listed on the Paris stock exchange.

The main information documents will be available shortly from the usual intermediaries. In addition, copies can be obtained from the Société Générale Services Team, 32 rue de Choiseul de Paris, 75002 Paris Cedex 01 France.

NOTICE OF CHANGE OF ADDRESS

Union Bank of Switzerland, London

NOTICE IS HEREBY GIVEN to holders of all Bearer Bonds, Notes, Depositary Receipts and other negotiable securities relating to all issues for which Union Bank of Switzerland, London acts as Fiscal Agent, Paying Agent, Depositary or as agent in any other capacity that, as of 4th November, 1991, its new address is:-

PO Box 428, 100 Liverpool Street,
London EC2M 2RH.
Telephone: 071-901 3333 Telex: 887341

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India

Acting by its President

Interest Rate 5 1/4% per annum

Interest Period 12th November 1991

12th May 1992

Interest Amount due U.S. \$10,000,000

12th May 1992 U.S. \$200,000,000

Credit Suisse First Boston Limited

Agent

PAN-HOLDING

SOCIETE ANONYME

LUXEMBOURG

As of October 31, 1991, the

unconsolidated net asset

value was

USD 294,597,155.70 i.e.

USD 535.63 per shares of

USD 200 par value.

The consolidated net asset

value per share amounted

as of October 31, 1991 to

USD 549.30.

than expected

stern exposure

many's new tabloid newspaper

Europe

Zenith to 600 jobs in Taiwan

CS104m

Rem

REMINGTON

INTERNATIONAL COMPANIES AND FINANCE

Reliance Industries seeks listing in Europe

By David Housego in New Delhi

RELIANCE Industries, the Indian petrochemicals and textiles group, plans to seek a European listing for its shares by raising \$125m in equity or Euro convertible bonds. The group, controlled by the Ambani family, is only the second Indian company to propose raising equity funds abroad. Tata Iron and Steel (TISCO) also announced last month it would be seeking shareholders consent to raise up to \$100m in equity or Euro-convertible issues as part of a policy of making itself better known on European markets. The Indian government has only recently allowed Indian companies to offer their shares on foreign markets. Reliance and TISCO have been encouraged to test the water first as two of the largest Indian companies and among the most successful in tapping the domestic capital market. Reliance, which recently backed down from a renewed bid to gain control of Larsen and Toubro, the Indian engineering group, announced it would be seeking a listing in London and Luxembourg after reporting virtually stagnant profits and turnover for the first six months of financial 1991-92. On the basis of unaudited figures, turnover rose by 3 per cent to Rs10.5bn (\$411m) against 2.5 per cent gain in after-tax profits to Rs830m. The group also announced it was raising the ceiling on portfolio investment by expatriate Indians to 24 per cent of its equity. This follows a recent government move to liberalise holdings by expatriate Indians as a way of attracting more foreign exchange.

Strong demand lifts Casio 33%

By Robert Thomson in Tokyo

CASIO Computer, the Japanese electronics company, reported a 32.6 per cent increase in pre-tax profit to ¥11.29bn (\$86.54m) for the first half to the end of September as demand was strong for its mainline calculator and watch products. Sales rose 17.1 per cent to ¥168.3bn from the same period last year, with growth continuing in demand for liquid crystal television sets, electronic address books, and multi-function watches. Musical instrument sales rose 17 per cent to ¥19.2bn and sales of calculators were 14.7 per cent higher at ¥3.5bn. The company said that the success of new products, including small electronic notebook-type items and Japanese word processors, had

boosted sales in spite of the slowing of domestic economic growth and the international recession. Exports, up to ¥102bn from ¥88bn, accounted for 61.9 per cent of total sales, down from 62.4 per cent. Casio reported that the unrealised gains on its marketable securities holdings fell to ¥6.7bn at the end of September from ¥7.4bn at the end of March. The weakness of Tokyo stock prices has limited share dealing by Casio, and many other Japanese companies, which had regarded the Tokyo exchange as a cheap source of funds. For the full year, Casio expects a 17.3 per cent increase in sales to ¥300bn, and a 20.7 per cent rise in pre-tax profit to ¥21bn.

Minolta Camera suffers first loss for 25 years

By Emiko Terazono in Tokyo

MINOLTA Camera, the Japanese precision instrument maker, saw its unconsolidated earnings fall into the red for the first time in 25 years for the interim period because of the higher yen and increasing competition. The company posted a pre-tax loss of ¥2bn (\$15.3m), down from profits of ¥4bn for the same period last year. Sales rose 5.5 per cent to ¥112.9bn and the company reported an after-tax loss of ¥2.3bn against a profit of ¥2.3bn a year ago. Minolta blamed a sharp rise in general management costs to ¥1.5bn after the release of new cameras and other products. The company said that the appreciation of the yen had also affected profits since

76.7 per cent of sales relied on exports. Camera sales, accounting for 42.9 per cent of turnover, fell 4.2 per cent to ¥49.5bn because of tougher competition. Office equipment sales, however, rose 14.4 per cent because of brisk sales of the company's laser beam printing machine. In addition, Minolta revised down its forecast for the full year, with break-even at the pre-tax level, on a 5.8 per cent rise in sales to ¥235bn. The company also revised down its consolidated projections and said that pre-tax profits, forecasted at ¥6bn, would break even, and sales would stand at a 5.4 per cent rise to ¥300bn, down ¥30bn from the initial estimate.

Improved results for Singapore Press

SINGAPORE Press Holdings (SPH), the publishing group which has near control of the nation's newspaper industry, has announced improved results for the year to August 31, writes Joyce Quek in Singapore. Group turnover rose 5 per cent to S\$558.4m (US\$332.4m) from S\$531.6m, even though

second half-year's returns were hurt by the Gulf war. Group pre-tax profits rose 13 per cent to S\$219.1m from S\$194.1m, after a reduced provision for diminution in value of investments and a 30 per cent cut in depreciation charges to S\$23.3m. After a turnaround to an extraordinary gain of S\$6.5m

from an loss of S\$12.8m mainly due to a write-back of provisions, attributable profits were S\$159.3m against S\$120.6m. Earnings per share grew to 88.18 cents from 78.99 cents while net tangible assets a share gained 48 cents to S\$2.47. A final dividend of 17 cents brought the year's total to 25 cents against 30 cents in 1990.

Lion Nathan wins support in National Brewing bid

By Kevin Brown in Sydney

LION NATHAN, the New Zealand brewer, yesterday won approval for its proposed takeover of Australia's National Brewing Holdings from the Foreign Investment Review Board and shareholders of Australian Consolidated Investments (ACIL). The deal was overwhelmingly supported by ACIL shareholders after Mr Geoff Hill, chairman, warned that the alternative was insolvency. ACIL, formerly Bell Resources, was forced into the deal by its need to raise A\$140m (US\$110m) due on Wednesday to holders of US dollar convertible bonds, who could otherwise apply to have the company put into receivership. ACIL owns half of National Brewing, formerly the brewing arm of Mr Alan Bond's Bond Corporation. National is Australia's second largest brewer, with around 56 per cent of the market through its Toohey's, Swan and Castlemaux Fourx brands. Lion, which has 56 per cent of the New Zealand market, bought 50 per cent of National from Bond last year. The complex deal provides for Lion to advance A\$140m to ACIL in the form of bridging finance secured as a first charge over ACIL's interest in National Brewing. In addition, Lion is offering 10 Lion Nathan shares for each ACIL share, equivalent to around A\$152m. The deal is also conditional on the conversion of ACIL's Swiss franc 1996 and US dollar 2000 convertible bonds to long-term Lion Nathan subordinated capital notes. ACIL shareholders also agreed to give Lion a call option to acquire ACIL's half share in National Brewing for A\$425m plus 50 per cent of 1991/92 profits if the takeover is blocked. Lion has given ACIL a put option to sell its National Brewing interest for A\$400m plus 50 per cent of earnings if the call option is not exercised. The put option would allow ACIL to repay Lion Nathan's A\$140m cash advance. Lion Nathan is raising NZ\$200m to help finance the takeover through a placement of 80m shares.

Brambles set to offer US\$274m for Ensco

By Kevin Brown

BRAMBLES, the Australian transport and industrial group, yesterday signalled a US\$274m takeover bid for Environmental Systems (Ensco), a US waste management company of Arkansas. Brambles holds 18 per cent of Ensco, but under a 1989 agreement the group cannot launch a bid for control without the approval of the company's board. An earlier offer of US\$140m in the first nine months of the current financial year against US\$5.4m in the same period last year. Ensco made net profits of US\$1.6m in the first nine months of the current financial year against US\$5.4m in the same period last year. Extraordinary losses of NZ\$1.14m reduced the profit to NZ\$7.08m from NZ\$23.5m. Preference share dividends of NZ\$1.95m compared with NZ\$6.68m left attributable profits of NZ\$45.13m against NZ\$16.83m. Gross revenues fell 8 per cent to NZ\$64.03m from NZ\$69.5m.

Mr David Ferguson, BUSA president, asked Ensco to call a board meeting to consider the request. He said Brambles wanted to complete the transaction "as soon as possible". Ensco made net profits of US\$1.6m in the first nine months of the current financial year against US\$5.4m in the same period last year. Extraordinary losses of NZ\$1.14m reduced the profit to NZ\$7.08m from NZ\$23.5m. Preference share dividends of NZ\$1.95m compared with NZ\$6.68m left attributable profits of NZ\$45.13m against NZ\$16.83m. Gross revenues fell 8 per cent to NZ\$64.03m from NZ\$69.5m.

Robt. Jones slides to NZ\$8.2m

By Terry Hall in Wellington

ROBT. JONES Investments, the biggest publicly listed property company in Australasia, has reported a 65 per cent drop in profits to NZ\$8.22m (US\$4.58m) in the six months to September 30. Sir Robert Jones, the chairman, said that the worst was over and steady growth in property values could be expected. There were "many positives" about New Zealand property but Australia would lag before turning to recovery. He said the company expected

improvement in the 150 commercial buildings it owned in New Zealand that were valued at up to NZ\$10m. The same trend would occur next year for more valuable properties. Extraordinary losses of NZ\$1.14m reduced the profit to NZ\$7.08m from NZ\$23.5m. Preference share dividends of NZ\$1.95m compared with NZ\$6.68m left attributable profits of NZ\$45.13m against NZ\$16.83m. Gross revenues fell 8 per cent to NZ\$64.03m from NZ\$69.5m.

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Tanjong public limited company

(Incorporated in England under the Companies Act 1985-1917: No. 210874)

Introduction to the London Stock Exchange

sponsored by Morgan Grenfell & Co. Limited

Application will be made to the London Stock Exchange to admit to the Official List the 167,736,668 Tanjong public limited company shares of 15p each in issue and the 19,748,000 Tanjong public limited company shares of 15p each to be issued. Dealings in the Tanjong public limited company shares are expected to commence at 8.30 am on 24th December, 1991 on the London Stock Exchange. Dealings are also expected to commence on The Kuala Lumpur Stock Exchange on the same date. Copies of the Listing Particulars, which will be included in the Companies Fiche Service available from Exel Financial Limited, 37-45 Paul Street, London EC2A 4PB from 3.00 pm on 13th November, 1991, may be obtained during normal business hours on any weekday up to and including 14th November, 1991 from the Company Announcements Office of the London Stock Exchange, London Stock Exchange Tower, Capel Court, entrance off Bartholomew Lane, London EC2C (collection only) and during normal business hours up to and including 26th November, 1991 (weekends excepted) from the Company's registered office: Broseley House, Newlands Drive, Witham, Essex CM8 2UL and from Morgan Grenfell & Co. Limited.

Morgan Grenfell & Co. Limited

23 Great Winchester Street London EC2P 2AX 12th November, 1991

All of these securities having been sold, this announcement appears as a matter of record only.

New Issue

1,500,000 Units

HOENIG GROUP INC.

Consisting of 3,000,000 Shares of Common Stock and 3,000,000 Redeemable Class A Warrants

J. E. SHEEHAN & COMPANY, INC.

SYNALGEST S. A.

K S SECURITIES GmbH.

October 31, 1991

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. These securities having been previously sold, this announcement appears as a matter of record only.

November 12, 1991

9,092,489 American Depositary Shares

Grupo Carso, S.A. de C.V.

Each ADS represents two Ordinary Participation Certificates. Each Certificate represents financial interests in one share of Series A-1 Common Stock.

Price U.S. \$23.50 Per ADS

Salomon Brothers Inc—Global Coordinator

This portion of the offering was offered in the United States under Rule 144A to Qualified Institutional Buyers by the undersigned.

4,546,245 American Depositary Shares

Salomon Brothers Inc

Lehman Brothers

Bear, Stearns & Co. Inc.

Arnhold and S. Bleichroeder, Inc.

Lazard Frères & Co.

This portion of the offering was offered outside the United States and the United Mexican States by the undersigned.

4,546,244 American Depositary Shares

Salomon Brothers International Limited

Baring Brothers & Co., Limited

Lehman Brothers International

Nomura Securities

Banamex Investment Limited

Banque Indosuez

Inversora Bursatil, S.A. de C.V.

BSN, S.V.B. (Grupo Santander)

UBS Phillips & Drew Securities Limited

Inversora Bursatil, S.A. de C.V. Financial Advisor to the Company

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. These securities having been previously sold, this announcement appears as a matter of record only.

November 12, 1991

2,729,166 American Depositary Shares

Empaques Ponderosa, S.A.

Each Representing Four Shares of Series B Common Stock

Price U.S. \$12.00 Per ADS

The offering was made in the United States under Rule 144A to Qualified Institutional Buyers and in Europe under Regulation S.

Salomon Brothers Inc

Bear, Stearns & Co. Inc.

OBSA International, Inc.

Salomon Brothers International Limited

Bear, Stearns International Limited

SEK

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U.S. \$20,000,000

13 1/4 per cent. Currency Linked Notes due 1991

NOTICE IS HEREBY GIVEN that in accordance with Conditions 5(a) & (b) of the Notes the principal and interest amounts payable on the 15th November, 1991 will be in U.S. Dollars calculated by reference to the Deutschmark equivalent of their principal amount. The U.S. Dollar/Deutschmark fixing rate as at 1st November, 1991 was 1.0623. Accordingly the principal amount payable per U.S. \$10,000 Note is U.S. \$8,933.41 and interest payable per U.S. \$10,000 Note is U.S. \$1,209.36.

Bankers Trust Company, London 12th November, 1991

Agent Bank

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Issue of up to

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Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 7th February, 1992 has been fixed at 10.475% per annum. The interest accruing for such three month period will be £131.65 per £5,000 Bearer Note, and £2,633.06 per £100,000 Bearer Note, on 7th February, 1992 against presentation of Coupon No. 9.

Union Bank of Switzerland

7th November, 1991

London Branch Agent Bank

INTERNATIONAL CAPITAL MARKETS

International bank lending shows first fall

By Simon London

LENDING by the international banking system declined by \$50m in the second quarter of this year, the first net fall in lending since records were first kept in the mid 1970s.

When lending between financial institutions is included, banking assets fell by a record \$140bn during the three months to the end of June, according to the Bank of International Settlements, the Basel-based clearing house owned by the central banks of the largest industrial economies.

This is also the first time total international banking aggregates have fallen over two consecutive periods, following a \$45bn decline in the first quarter.

The largest area of decline in both quarters was lending by Japanese banks. However, the slow-down in lending spread to all financial centres during the spring and this was reflected in the overall decline in the amount of credit intermediated by the banking system.

While there have been widespread fears of a "credit crunch" facing companies, lending between banks has shown the biggest absolute decline. International inter-bank lending fell by \$125.7bn during the second quarter, following an \$86.7bn fall during the first three months of the year.

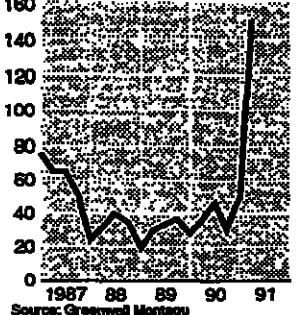
The BIS commented that there has been "a basic change in strategy away from balance-sheet growth towards asset quality".

The change has been prompted by the introduction of the Basel guidelines on international bank capital adequacy which have forced banks to focus on return on assets, rather than absolute balance sheet size.

While the banking sector has been in depression, borrowing from the securities market has flourished. The BIS noted strong new issue activity in the international bond market.

Capital issues

As % of external business finance



Source: Commercial Finance

Salomon said operating income soared 74 per cent to \$1.4bn as profits on trading rose by 10 times and interest income rose 43 per cent.

Strength in arbitrage trading also helped Credit Lyonnais Securities and SBCI Securities return to the black. Credit Lyonnais, which is the most recent foreign entrant on the Tokyo Stock Exchange, posted pre-tax profits of \$1.5bn thanks to active derivative trading and strong results in its quantitative business.

Profits from arbitrage trading supported earnings at foreign brokerages, as foreign houses, with their expertise in derivative trading, have been seen as leaders in arbitrage activity.

"The role of derivative trading has been large at most profitable brokers," said a branch manager of a British house.

Japanese brokerages have been severely checked by the revelations of stock scandals and 37 out of 47 reported pre-tax losses for the interim period.

Foreign houses, on the other hand, saw active investment by foreign institutional investors, supporting commission fees. For the first six months of the fiscal period, foreigners were net buyers of securities worth \$2,400bn on the Tokyo, Osaka, and Nagoya stock markets.

Two foreign brokers see profits soar in Japan

By Emiko Terazono in Tokyo

TWO leading foreign brokerages yesterday reported pre-tax profits for the six months to end-September, 1991, higher than achieved by most Japanese securities groups for the period.

The Tokyo operations of Salomon Brothers and Morgan Stanley reported pre-tax profits of \$1.6bn (\$123.5m) and \$1.5bn respectively. Nomura Securities made \$26.5m and Daiwa Securities reported \$20.6m. Nikko came in fifth, with pre-tax profits of \$1.1bn.

Foreign brokers were helped by the flood of buying by foreign institutions during the first half and profits from derivatives trading, such as futures and options.

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Ljubljana stock market shrugs off conflict

Jacqueline Moore on business as usual at one of Yugoslavia's three exchanges

Yugoslavia has been more associated with tanks and fighting than capital markets in recent months. Even the more peaceful republics, such as Slovenia, have been at severe political risk in the eyes of foreign investors.

However, the conflict between Serbia and Croatia has not kept Slovenians away from their stock exchange in Ljubljana, the capital. Institutional and individual investors have pushed turnover to about DM1m (\$625,000) a day from DM900,000 at the same time last year, said Mr Drasko Veselinovic, chief executive officer of the exchange, who was in London last week.

Mr Veselinovic, who is also

professor of international finance at Ljubljana's university, believes the market will ride out the current troubles. Even during the fighting which erupted in Slovenia in June, when the republic declared its independence from Yugoslavia, the market continued to operate in heavy trading.

"We wanted to close because of the aircraft overhead and the blocked streets, but the finance minister said 'no, continue normal operations', so we did," said Mr Veselinovic. He stressed the federal army has now withdrawn from the republic and peace has returned.

However, he conceded the conflict is keeping interest low

among foreign investors. He also accepts the market is very small: there are only about 30 securities on the exchange, mostly bonds. There are only three stock listed: Grad, a consultancy; Ilirija Banka, a Croatian bank; and Mladinska Knjiga, a publishing company.

This number is set to swell, however, once privatisation gets under way, according to Mr Veselinovic. The privatisation law has not yet been passed - Slovenia's nine political parties are currently arguing over it - but he believes about 30 per cent of the 1,600 companies are marked for privatisation could receive public flotations in the next two years or so.

The stock exchange was re-established on December 26, 1989. It took another three months for the market to become operational.

There are also stock markets in Belgrade in Serbia and Zagreb in Croatia, but neither is active. Mr Veselinovic believes Yugoslavia has several advantages over other eastern European markets, because it was never part of the eastern bloc and has had a more open economy for longer. Ljubljana has even done some consultancy work for the stock market steering committee of Bratislava, Czechoslovakia.

"We have all the advantages, such as knowledge and experience, over other east European countries, although we do have

a current political disadvantage," he said. "I wouldn't put us in the same basket."

Mr Veselinovic compares the Ljubljana market directly with western European emerging markets such as Lisbon and Istanbul. He believes Turkey's stock market grew sharply after a wave of privatisations such as those planned by Slovenia, while Lisbon benefited from its application for European Community membership in 1986. The Ljubljana exchange plans to operate according to EC standards.

Exchange officials, however, have a hard task to promote Ljubljana to foreigners at the current time.

Finnish issue raises Y50bn

By Simon London

FINLAND yesterday maintained the pace of new issue activity in the yen sector of the international bond market, raising Y50bn, 10-year funding in a deal lead-managed by Daiwa Europe.

The deal follows Y170bn straight bonds launched last

week, including a Y50bn seven-year deal by Belgium. Like the Belgium deal, demand for the Finnish paper was dominated by European institutional investors, many in the UK.

However, the Euro-market in a generally lacklustre mood and with the US and some European markets closed, some participants reported slow sales. From a fixed re-offer price of 99.83, the 6 per cent bonds traded down to 99.75 as the lead manager bought back some unplaced paper. However, by the close of trading the bonds were firmly

bid at the fixed re-offer price. Syndicate managers are anticipating further substantial Euro-yen issues before the year end, with borrowers taking advantage of attractive currency and interest rates swaps opportunities. The proceeds of yesterday's issue were swapped into floating-rate D-Marks.

The Euro-dollar sector could also see new issue activity. Borrowers including Norway and KfW, the German state-backed financial institution, were yesterday looking at borrowing opportunities, syndicate officials said.

Electricité de France, which received a triple-A credit rating last week, is also expected to borrow.

There are a number of higher-yielding borrowers eyeing the market. Argentina is expected to come with a two-year Eurodollar deal, lead managed by Credit Suisse First Boston. Venezuela and Petroleum Venezuela are also hoping to launch new issues in D-Marks and dollars respectively. Looking further ahead, Apasco, the Mexican cement company, is preparing the ground for a \$100m five-year bond issue which will be lead managed by Swiss Bank Corporation.

IBCA, the London-based credit rating agency, has upgraded the long-term rating of Credit Commercial de France by one notch from A+ to AA-

Standard & Poor's has placed the credit ratings of General Motors on review for possible downgrade following heavy losses this year. The company was downgraded to single-A in February.

The Philadelphia Stock Exchange has received approval from the Securities and Exchange Commission (SEC) to start trading its D-Mark/yen cross rate currency options on November 22. It said that the SEC also approved trading in sterling/D-Mark and sterling/yen options.

It did not give any date for the launch of these options.

Merrill plans new unit

By Patrick Harverson in New York

MERRILL Lynch, the big Wall Street brokerage house, yesterday announced the formation of a subsidiary to provide interest rate and currency swaps services to customers.

The new unit, Merrill Lynch Derivative Products (MLDP), has been assigned a provisional triple-A counterparty rating by Moody's Investors Service, the US ratings agency. This top rating, which the parent group Merrill Lynch does not enjoy, means MLDP will be able to conduct business for institutions that only work with highly-rated counterparties.

Mr Edson Mitchell, chairman of MLDP, said yesterday the creation of MLDP will support

our leading position in the swap and debt markets business globally and permit us to expand our activities in credit-sensitive sectors of the market, where a triple-A credit rating is a transaction pre-condition."

Previously ratings-sensitive customers were served by a few top-rated international banks. MLDP, which has been capitalised at \$350m, will act as a broker between the parent's double-A and triple-A rated clients and its traditional swap dealing subsidiary, Merrill Lynch Capital Services. The clients MLDP will serve are expected to include multinational companies, banks, sovereign powers and government agencies.

Capel to take up Liffe offer

By Tracy Corrigan

JAMES Capel, the UK securities firm, plans to take up 12 of the new "D" shares issued by the London International Financial Futures Exchange, which will entitle the firm to trade equity options when Liffe and the London Traded Options Market merge early next year.

Capel is the first firm to state its intention to buy shares in the offer, which closes on November 21. Liffe is offering up to 400 shares priced at \$15,000 each. Each share

entitles the holder to have one trader on the floor of the exchange. A minimum of 200 shares must be taken up by the merger to go ahead.

Capel, which already has 27 Liffe shares, plans to focus particularly on the FT-SE index option. "We expect equity derivatives volumes to grow considerably...and in particular, the interest volumes in FT-SE futures and options to expand dramatically" after the merger, said Mr David Heron, Capel's head of derivatives.

HK to launch bond programme

HONG Kong will next week launch its first government bond programme since the mid 1980s when HK\$500m (US\$64.9m) of two-year bonds was put on offer, writes Angus Fender.

The programme is designed to stimulate the colony's capital markets, which have

always been overshadowed by equity trading.

The government enjoys a budget surplus and proceeds from the issue will be used to finance capital expenditure. The first tranche will be offered on Monday and will carry interest at the rate of 6.25 per cent, payable half-yearly.

FT-ACTUARIES SHARE INDICES											
© The Financial Times Ltd 1991. Compiled by the Financial Times Ltd in conjunction with the Institute of Actuaries and the Faculty of Actuaries											
EQUITY GROUPS											
Monday November 11 1991											
Index No.	Day's Change %	Ex- Div. Yield %	Gross Div. Yield %	P/E Ratio	Adj. P/E Ratio	Index No.	Day's Change %	Ex- Div. Yield %	Gross Div. Yield %	P/E Ratio	Adj. P/E Ratio
1. CAPITAL GOODS (181)	809.99	-1.0	8.66	6.02	14.67	32.12	817.91	812.44	811.96	681.96	681.96
2. Building Materials (22)	1077.79	-0.5	7.54	6.82	18.79	50.73	1082.01	1074.70	1070.06	1114.09	1114.09
3. Chemicals (14)	2490.23	-0.9	8.78	5.87	14.44	98.23	2512.12	2511.77	2483.77	1089.75	1089.75
4. Electronics (25)	1377.01	-0.4	10.70	5.99	11.88	51.95	1378.90	1376.12	1371.91	1380.28	1380.28
5. Engineering-General (43)	327.03	-0.9	7.15	5.27	7.77	19.25	330.14	327.37	325.65	391.31	391.31
6. Engineering-Aerospace (8)	486.36	-0.6	10.07	5.20	12.22	16.79	489.87	487.47	485.13	346.77	346.77
7. Metals and Metal Forming (9)	370.51	-12.3	1.99	9.56	-	18.43	422.57	426.09	427.24	396.39	396.39
8. Motors (12)	334.38	-1.1	7.74	7.20	17.14	17.56	338.02	338.14	336.43	472.20	472.20
9. Other Industrial Materials (20)	1588.90	-0.1	7.06	5.14	14.92	57.99	1594.69	1572.70	1570.21	1110.30	1110.30
10. Other Industrial Materials (20)	1588.90	-0.1	7.06	5.14	14.92	57.99	1594.69	1572.70	1570.21	1110.30	1110.30
11. Textiles (10)	1660.18	-0.5	7.86	3.43	15.30	38.33	1669.96	1657.06	1629.65	1469.34	1469.34
12. Food Manufacturing (19)	1217.38	-0.1	9.38	4.10	13.67	30.09	1218.08	1219.96	1216.96	944.66	944.66
13. Food Retailing (17)	2424.26	-0.1	9.38	4.10	13.67	47.55	2425.96	2424.96	2401.49	227.70	227.70
14. Health and Household (23)	4004.71	-0.7	4.99	2.34	22.97	67.75	4019.25	4019.65	3999.70	2000.26	2000.26
15. Hotels and Leisure (24)	1356.98	-0.2	7.53	5.19	16.45	45.61	1364.46	1340.99	1336.75	1105.92	1105.92
16. Media (26)	1489.56	-0.5	7.09	4.78	18.44	47.37	1496.75	1487.39	1482.22	0.00	0.00
17. Packaging, Paper & Printing (17)	1028.86	-1.5	7.30	3.61	17.95	26.03	1030.47	1027.98	1033.34	794.75	794.75
18. Textiles (10)	1660.18	-0.5	7.86	3.43	15.30	38.33	1669.96	1657.06	1629.65	1469.34	1469.34
19. Other Services (12)	1244.90	-0.1	9.74	5.24	12.92	36.29	1245.46	1236.36	1231.34	943.16	943.16
20. Business Services (12)	1377.07	-0.4	7.15	5.27	7.77	19.25	1381.95	1381.57	1384.09	0.00	0.00
21. Business Services (12)	1377.07	-0.4	7.15	5.27	7.77	19.25	1381.95	1381.57	1384.09	0.00	0.00
22. Conglomerates (11)	1447.15	-0.6	9.98	7.24	12.14	38.87	1455.43	1448.51	1446.87	1200.08	1200.08
23. Transport (13)	2306.38	-0.9	7.42	4.89	16.70	68.25	2326.74	2314.88	2296.71	1792.26	1792.26
24. Electricity (16)	1197.46	-0.4	14.67	6.42	8.89	47.55	1201.95	1208.34	1204.94	0.00	0.00
25. Telephone Networks (1)	1477.87	-1.3	10.31	6.17	12.93	28.34	1479.23	1466.11	1466.11	1063.27	1063.27
26. Water (10)	2387.04	-0.1	17.11	6.47	6.47	125.82	2394.92	2395.22	2397.61	1954.04	1954.04
27. Miscellaneous (23)	1846.45	-0.6	5.30	5.34	26.15	70.30	1857.16	1835.41	1825.64	1489.80	1489.80
28. INDUSTRIAL GROUP (481)	1285.77	-0.2	8.28	4.82	15.12	35.98	1288.19	1279.25	1276.71	965.45	965.45
29. Oil & Gas (19)	2376.16	-0.5	11.00	5.85	12.01	103.73	2387.69	2374.15	2365.45	2278.72	2278.72
30. SHARE INDEX (500)	1300.06	-0.2	8.61	4.68	14.66	45.31	1303.16	1303.81	1302.24	1071.92	1071.92
31. FINANCIAL GROUP (91)	755.83	-0.5	6.80	5.19	17.71	77.79	765.96	765.96	761.04	680.34	680.34
32. Banks (9)	953.02	-0.8	4.61	3.91	40.98	57.46	959.27	957.47	943.05	889.79	889.79
33. Insurance (Life) (7)	1504.35	-0.5	-	5.63	-	63.86	1497.36	1483.81	1464.01	1261.35	1261.35
34. Insurance (Composite) (6)	568.11	-0.4	-	7.73	-	32.94	565.83	567.17	566.59	571.73	571.73
35. Insurance (Brokers) (10)	1181.36	-0.2	7.41	6.85	17.49	32.14	1189.29	1183.53	1180.55	899.55	899.55
36. Merchant Banks (7)	404.72	-0.7	-	-	-	13.88	408.63	408.63	408.63	408.63	408.63
37. Property (35)	902.79	-0.6	5.86	5.13	24.43	25.28	902.88	899.35	896.84	943.45	943.45
38. Other Financial (17)	250.46	-0.3	11.41	6.90	11.00	11.72	249.80	249.87	250.67	244.05	244.05
39. Investment Trusts (70)	1212.91	-0.1	-	3.57	-	21.18	1213.54	1210.61	1207.27	953.94	953.94
40. ALL-SHARE INDEX (641)	1234.87	-0.2	-	4.82	-	38.60	1236.47	1238.08	1236.00	990.49	990.49
41. FT-SE 100 SHARE INDEX	2554.91	-4.1	2572.41	2553.71	2591.0	258.0	2564.21	2548.91	2537.81	2561.9	2561.9

FIXED INTEREST						AVERAGE GROSS REDEMPTION YIELDS			Mon Nov 11	Fri Nov 8	Year ago (approx.)
PRICE INDEXES	Mon Nov 11	Day's change %	Fri Nov 8	Accrued interest 1991 to date	Adj. P/E Ratio						
British Government						1	British Government				
						2	Low	5 years	8.44	8.48	10.31
						3	Constant	15 years	9.46	9.43	10.81
						4	3 (0% - 7%)	20 years	9.47	9.43	10.85
						5	Medium	5 years	9.63	9.65	11.40
						6	7% Co	15 years	9.58	9.56	11.27
						7	8% - 10% %	20 years	9.55	9.52	11.22
						8	High	5 years	9.84	9.86	11.53
						9	Constant	15 years	9.66	9.64	11.47
						10	9 (11% - 16%)	20 years	9.68	9.57	11.46
						11	Irredeemables	5 years	9.67	9.53	10.97
						12	Index-Linked				
						13	Inflation rate 5%	Up to 5 yrs.	3.82	3.82	3.82
						14	Inflation rate 5%	Over 5 yrs.	4.24	4.24	4.24
						15	Inflation rate 10%	Up to 5 yrs.	4.23	4.23	4.23
						16	Inflation rate 10%	Over 5 yrs.	4.07	4.07	4.07
						17	Index-Linked				
						18	15% & Loans	5 years	11.31	11.32	13.36
						19	15 years	11.13	11.12	12.86	
						20	25 years	10.95	10.93	12.50	
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UK COMPANY NEWS

Sale to Kodak boosted profits by reducing interest by £1m
Amersham improves 17% to £8.4m

By Jane Fuller

AMERSHAM International, which makes radioactive packages for medical, industrial and research uses, increased pre-tax profit by 17 per cent, from £7.2m to £8.4m, in the six months to September 30.

The improvement came on turnover of £136.5m (£115.7m), including two acquisitions in US healthcare but excluding the clinical diagnostics business which is being sold to Eastman Kodak of the US, for a total of about £24m.

The arrangement with Kodak - which has freed Amersham from the costly development of the Amerlite range of products - has left the UK group with a royalties stream.

Group operating profit only gained 2 per cent to £3.8m. Mr Kirk Stephenson, finance director, said that continuing business showed a 21 per cent advance to £7m, while last year's £3.8m from clinical reagents was replaced by £2.8m of royalties.

Cash from Kodak helped to

cut interest costs by £1m to £1.4m and pre-tax profit was also topped up by a £400,000 currency gain. About 85 per cent of sales are overseas.

A lower, more normal tax rate of 35 (42) per cent contributed to a 35 per cent increase in earnings per share, which totalled 9.3p (6.9p). The interim dividend was, however, held at 3.7p to improve the cover.

The life sciences division, which sells mainly to academic institutions, is the biggest component in both turnover and profit.

Mr Bill Castell, chief executive, said that after a poor fourth quarter of last year, a growth rate of more than 10 per cent had returned.

Industrial products, involving measurement and detection, had done well in Europe. Mr Castell said this reflected a change in business culture over the past two years "away from sales and towards the discipline of profitability".

The progress in these two divisions was denied by con-

tinuing losses in healthcare.

Margins remained low in generic radiopharmaceuticals, while research and development spending had increased on branded products.

COMMENT

Although the figures were difficult to interpret because of a lack of detail, the better-than-expected results helped push up the share price to a new high for the year of 395p.

The underlying advance in operating profit was reassuring and the bringing forward to March of a £47m payment from Kodak is unmitigated good news.

It will reduce gearing from about 40 per cent to less than 15 per cent. The second half again has the uphill element of plugging the gap left by clinical diagnostics.

But a bigger question is whether the demand for life science products will suffer again in the fourth quarter. It remains somewhat surprising that the stock commands a premium rating of about 19 times, assuming more than £18m



Bill Castell: shift in culture towards profitability

(£16.5m) pre-tax profit for the full year. The belief is that the company's performance will be removed from its performance or that a much bigger player will pay handsomely to acquire the technology.

Vodafone spends £43.6m on 30% of HK network

By Hugo Dixon

VODAFONE, the UK mobile communications group, has agreed to buy a 30 per cent stake in Pacific Link Communications, one of Hong Kong's four cellular networks, for \$75m (£43.6m).

Pacific Link has more than 42,000 subscribers, with new customers being added to the network at an average rate of 1,750 per month. It reported pre-tax profits of HK\$3.7m (£270,000) for the 1990 calendar year though Vodafone expects its profits to increase.

Pacific Link is now 50 per cent owned by Asia Link, a Hong Kong holding company, and 50 per cent owned by the Swedish group Kinnevik. In a complicated series of financial transactions, Vodafone's money will help buy out Kinnevik's 50 per cent stake.

Vodafone is acquiring new assets in Asia Link. Long Life, a Hong Kong company owned 80 per cent by SHK Hong Kong Industries and 20 per cent by Wardley Investments, is acquiring 10 per cent of Asia Link for \$25m at the same time.

First Pacific, another Hong Kong group which previously owned 100 per cent of Asia Link, will be left with 60 per cent.

Asia Link will use the \$100m from Vodafone and Long Life, together with a \$60m syndicated loan, to acquire Kinnevik's 50 per cent stake of Pacific Link, with the balance of \$30m being used to repay an existing loan. Vodafone is guaranteeing 30 per cent of the syndicated loan facility.

The financial conditions on the approval of the Hong Kong Telecommunications Authority. Even with the prospect of Hong Kong reverting to Chinese rule in 1997, Vodafone said it thought the stake was a good investment.

Goldman sold 2m MGN shares the day after Maxwell died

By Our Staff in London and Peter Bruce in Madrid

GOLDMAN SACHS, the US investment house, yesterday said that it had sold 2m shares in Mirror Group Newspapers last Wednesday, the day after Mr Robert Maxwell died and the shares of his two quoted companies were suspended.

Goldman Sachs said the shares were not part of security for \$60m of loans it has made to private Maxwell companies. The shares had been held by a Goldman company in a "proprietary position".

The sale was executed in New York in "off-exchange block trades" due to the suspension of trading in the company's 9.9 per cent stake in MGN, which is security for loans, remains unchanged after the sale.

The shares of Maxwell Communication Corporation, Mr Maxwell's main company, and MGN held steady yesterday.

The sale 11 days ago of MCC shares which Goldman had held as security for private loans to Mr Maxwell alarmed bankers last week - they have been trying to maintain a common front in negotiations with Mr Maxwell's debt-laden empire.

Mr Kevin Maxwell, the new chairman of MCC, yesterday

continued talks with bankers who are owed a total £2.4bn by the private and public empire his father built. Mr Kevin Maxwell added banks in Switzerland to the list of UK and US institutions he has visited since taking over at MCC last Thursday.

Meanwhile the apparent mystery surrounding Mr Maxwell's death looked no closer to being solved yesterday with conflicting reports continuing to surface both in the UK and Spain.

Mr Julio Hernandez Claveri, Mr Maxwell's lawyer on the island of Tenerife, yesterday denied reports published in some sectors of the British media that he had suggested the British publisher was murdered on his boat.

"I did not say anything about this," he maintained. "Until there is a definite [autopsy] result, no one can say anything."

Mr Claveri did say, however, that he would recommend to the Maxwell family that it carry out its own investigation into the death, alongside one being pursued by the authorities in the Canaries.

In London, insurers were last night still believed to be awaiting the results of a

pathologist report by Dr Iain West, head of forensic medicine at Guy's Hospital in London.

After his return from Israel where he had been examining Mr Maxwell's body, Dr West said that he did not know how long it would take to complete his report.

"It all depends on the Spanish authorities and on tests I am doing... I have no idea when my findings will be complete," Dr West said.

In a brief statement at Westminster coroner's court yesterday, Dr West said he would be in contact with the insurance companies, but would not be commenting to anybody else at present.

Dr West will be reporting to William Corcoran, whose subsidiary Wilks Wrightson brokered the MGN personal accident insurance cover taken out on behalf of Mr Maxwell.

The policy, which has been underwritten by a number of insurers, including Lloyd's syndicates and companies, is for £20m.

If Mr Maxwell died from natural causes - a heart attack, for example - the policy does not pay out. If he died as a result of an accident, or murder, the policy is triggered.

Direct sales lift Betterware to £2.8m

By Jane Fuller

BETTERWARE CONSUMER Products continued to beat the UK recession with its door-to-door sales of household goods. Pre-tax profit rose by 65 per cent, from £1.7m to £2.8m, in the 28 weeks to September 14.

Turnover advanced by 51 per cent to £21.1m, with average share price benefiting from a lower tax charge to grow by 76 per cent to 4.85p (2.77p).

Mr Andrew Cohen, chief executive, said turnover in the core direct sales business grew by 70 per cent. The benefits had included economies of scale in purchasing. "The malaise in the economy meant we were able to be firmer with suppliers."

It also made it easier to draw people into the doorstep selling business, which was serving

180,000 customers a week.

Mr Cohen said the number of area managers had grown from 340 at the year-end to 420. In the long-run there could be more than 1,500. "One area manager could have 300,000 people, whereas the ideal size is about 50,000. We are constantly refining the territories."

The process would be assisted by a new software system that linked the National Census, Ordnance Survey maps and postcode sectors.

Betterware recently started operating in north-east France, involving a £250,000 investment. One encouraging sign was that the average amount each customer spent was about 50 per cent higher than the typical £7 a time in the UK.

Other businesses, which include plastic injection manufacture and coffee houses, improved their contributions, but they amounted to less than 10 per cent of group profit. These "investments" were not regarded as core activities.

Interest received was £290,000 (£238,000). The amount of cash held grew from £500,000 at the year-end to £1.9m.

The interim dividend goes up 26 per cent to 0.85p (0.68p).

COMMENT

Betterware's strong growth performance has been recognised in a tripling of the share price in the past year. In the UK, it still has the potential to reach many more households and to glean more pounds per doorstep, especially through

additions to the catalogue. A capacity limitation is looming at its warehouse - about £5m will have to be spent on a much bigger centre next winter. Cash is already being accumulated for this purpose and when the market picks up for its oddball manufacturing and retail businesses, disposal prices could add to the pile. As the group is now focused on spreading its formula geographically, progress in France will be closely watched.

The group plans to move into a new country every 18 months to two years. Full-year pre-tax profit is forecast to rise 50 per cent to £2.8m, giving a prospective p/e of about 21. This is high enough for profits to be taken, but the shares are probably still worth holding for growth potential.

NEWS DIGEST

Fidelity chiefs resign

FIDELITY International, the US-based fund manager, said that two senior members of its five-person European investment team had resigned "by mutual agreement".

Mr Greg Logan, director of Fidelity Investment Services and Mr Stuart Bottomley, tendered their resignations last Friday. Fidelity said their departure was not part of a reorganisation of the European investment section.

Fidelity's performance has lagged over the past two years, after the company ranked among the top performers in the late 1980s. The company said that Ms Fiona Hart, a fund manager with Morgan Grenfell, would shortly be joining the team.

brands. Courage took over Ushers, the oldest brewery in Wiltshire, as part of a swap with GrandMet earlier this year.

Sun Life links with Indian insurer

Sun Life, the life insurance company, is to form a European joint venture with the state-owned Life Insurance Corporation of India.

The Indian company will market life insurance, modelled on existing Sun Life products, to the Indian population in the UK. The products will be fully re-assured and administered by Sun Life.

Mr Peter Grant, chairman of Sun Life, said "the LIC are well placed to succeed in this market". The venture will be launched in the spring of 1992.

Land sale boosts Wain to £4.37m

Enhanced by £1.1m land sale surplus, pre-tax profit of Wain Group increased from £3.55m to £4.37m in the half year ended September 30 1991.

Mr William Ainscough, chairman of this Chester-based housebuilder which was once in the Christian Salvages group, said the main contributory factor to the group's ability to maintain operating profit was a realistic approach to the purchase of land and effective control of work in progress.

The group increased turnover and completions by 23 per cent and 29 per cent. Prices continued to be under pressure, particularly in the luxury range. A reduction in average selling price was the result of meeting the demand for first and second time purchaser homes.

Earnings per share increased from 32.75p to 41.56p and the interim dividend is maintained at 10p.

Management buys west country brewer

Courage, the UK subsidiary of Foster's Brewing, has sold Ushers brewery at Trowbridge, Wiltshire together with 433 west country pubs, to a management team led by Mr Roger North, former managing director of Grand Metropolitan Brewing.

Under the deal, completed yesterday for an undisclosed price, Ushers will brew Manna beer brands under licence from Courage as well as its own

Unquoted stocks hit Drayton English Tst

Capital and revenue accounts of Drayton English and International Trust have suffered in the half year ended October 5

COMPANY NEWS IN BRIEF

CROWN COMMUNICATIONS: rights issue has been taken up by holders of 0.68m shares or 76 per cent. In addition under the recently agreed share exchange proposals 21.9m shares will today be allotted to Toowoomba Investments, a Darling Downs subsidiary, giving it a 43 per cent holding. However Darling Downs and its subsidiaries will not be able to exercise more than 29.9 per cent of the voting rights.

JOHNSON & FIRTH Brown has bought Bradley & Foster, a

subsidiary of Staveley Industries. B&F makes specialist wear-resistant castings for use in the mining, cement, shotblast, power generation and general engineering industries. The consideration is £3.22m cash.

PITTENCRIEFF has placed 863,000 new ordinary shares with institutional investors and private individuals for cash. The proceeds - about £1.3m - will be used for investment and working capital.

Personal Assets earnings static

Personal Assets Trust increased net asset value to 67p per share at end October 1991, against 59.9p previously.

Net revenue for the six months period however, was unchanged at £117,000, after tax of £50,000 (£44,000) giving same-again earnings per share of 0.78p. An interim dividend of 0.75p (nil) has already been declared.

Total income came to £231,000 (£239,000).

Correction

Scottish Amicable

Scottish Amicable Investment Managers did not, contrary to our report of October 22, buy 5m shares in P&P just before the price halved. It actually bought 20,000 shares on October 2, taking its stake in the company to just over the 5m mark before P&P's share price fell from 101p to 50 1/2p. We apologise for the misunderstanding.

WEST YORKSHIRE

The FT proposes to publish this survey on November 27 1991. It will be of particular interest to the 130,000 Directors and Managers in the UK who read the FT. If you want to reach this important audience, call

Hugh Westmacott Tel: 0532 454969 Fax: 0532 423516. Permanent House, The Headways, Leeds LS1 8DF.

Data source: BMRC Businessman Survey 1990

Wardle Storeys falls 26% to £8.2m

By Michio Nakamoto

THE EFFECTS of recession in the UK offset the benefits of advances in other markets at Wardle Storeys, the specialist manufacturer of plastic sheet and safety equipment, which reported a 26 per cent decline in pre-tax profits to £8.15m for the year to August 31.

The fall from profits of £11.08m previously on turnover down to £78.25m (£90.48m), was largely due to a sharp decline in the technical products division, which is about 74 per cent dependent on the UK market.

Sales of technical products, such as plastic sheets used in industry and car interior trim, declined by 10 per cent to £53.91m (£59.82m) while operating profit was down 65 per cent to £2.03m (£5.75m).

"The division was most affected by the downturn in automotive sales in the UK, which were down by 24 per cent. But it is by no means the only decline," said Mr Brian Taylor, chief executive.

Despite the decline the shares rose 6p to 34p.

Wardle has been reducing its dependence on the UK market for its technical products by expanding into Europe and the US. However, the decline in the UK during the period, more than offset a 14 per cent gain in European sales, it said.

On the positive side, the safety and survival equipment division, which has 70 per cent of sales outside the UK, increased operating profits by 54 per cent to £2.73m (£1.78m).

Petrocon shares jump on change in management

By Peggy Hollinger

Shares in Petrocon rose sharply yesterday from 39p to 48p as the surveyor and valve distributor announced its second change of top management in less than three years and the virtual withdrawal of its largest shareholder.

Mr Colin Robinson, who led the £115m management buy-out of Hollis Industries in 1988, has been appointed chairman and chief executive. He replaces Mr Roger Pinnington, who became chairman following a capital restructuring and £2.5m cash injection from a consortium led by Hillsdown Investment Trust in 1989. Mr John Carney has quit as chief executive.

Hillsdown, which held 20.5 per cent of Petrocon, yesterday sold 16.5 per cent of its stake and Mr Pinnington sold his 2 per cent.

Mr Robinson said he aimed to expand the group mainly in the engineering manufacture business - the making of specialist parts for particular plants or projects. Companies had been targeted for acquisition and an announcement could be expected before Christmas. He said two further purchases were planned by the end of 1992. "We aim to build a company with turnover of £200m by the end of 1992."

The new chairman said expansion would be funded through a rights issue or acquisitions for shares. The group has £3.6m cash in the bank and nil gearing. Profits for the year to December 31 1990 were 22 per cent higher at £1.6m.

GN Great Nordic Holding

At its extraordinary meeting on 4th November, 1991 the Company's Board of Directors passed a resolution to increase the share capital by a nominal amount of DKK 40,950,000 pursuant to the authority granted in article 4 of the Articles of Association.

409,500 shares of DKK 100 nominal value each will be offered for subscription at a price of DKK 330 with a pre-emptive right for the Company's existing shareholders to subscribe for the New Shares. Subscription will take place in the proportion of 1:2, i.e. existing shareholders will be entitled to subscribe for one share of DKK 100 nominal value for every two shares of DKK 100 nominal value each held.

The nominal share capital will thus be increased from DKK 81,900,000 to DKK 122,850,000.

Subscription period
New Shares may be subscribed from 25th November to 6th December, 1991, both days included. Holders of Rights may subscribe for New Shares by applying to a bank or another custodian. On expiry of the subscription period the Rights will have no value.

Trading in Rights
The Rights will be quoted on the Copenhagen Stock Exchange and may be traded from 20th November to 3rd December, 1991, both days included.

Subscription price
DKK 330 per share of DKK 100 nominal value. The New Shares subscribed are to be paid for in cash upon subscription against registration of the shares on the subscriber's account with the Danish Securities Centre.

Listing
The New Shares will be listed on the Copenhagen Stock Exchange and the London Stock Exchange, where the existing shares are listed. The New Shares will be admitted to the Official Lists of the two stock exchanges as from 20th November, 1991.

Dividend
The New Shares will be eligible for all dividends declared or paid as from the financial year 1991/92. Dividends will be credited to the shareholder's account with the account holding institution.

Lead Manager
The Company's banker and issuing bank, Unibank A/S, Issues and Settlements, Statens Pkads, Copenhagen, Tel: +45 33 33 31 56

is authorised to issue the New Shares in GN Great Nordic Holding through the Danish Securities Centre.

Prospectus
The Prospectus with details on the GN Great Nordic Group and containing the complete terms and conditions of the issue may be obtained from the Lead Manager, the Selling Group and Danish financial institutions and stockbroking companies.

Lead Manager: Unibank A/S

Co-Managers: Den Danske Bank Hefnia Erhvervsbank A/S

Copenhagen, 4th November, 1991

GN Great Nordic Holding

WAIN GROUP plc

Highlights of the Results for the Six Months to 30th September 1991

	Unaudited 6 months to 30th September 1991	Unaudited 6 months to 30th September 1990	Audited Year to 31st March 1991
Pre-Tax Profit	£4.4 m		
Turnover	up 23%		
EPS	up 26%		
Operating profit	\$124	4259	8077
Interest	(754)	(709)	(1632)
Other income	86	86	86
Profit before taxation	4370	3550	6526

Wain Group plc
operates as a householder under the trading name, Wainhomes.

For a copy of the interim report write to
David Ince, Company Secretary,
Wain Group plc, The Beeches, Chester CH2 1PR.

BUILDING BRITAIN'S HERITAGE

UK COMPANY NEWS

Scottish Mutual meeting approves Abbey takeover

By James Buxton, Scottish Correspondent

POLICYHOLDERS in Scottish Mutual yesterday approved the £285m takeover of their medium-sized life insurance company by Abbey National by a 92 per cent majority, comfortably within the 75 per cent majority required.

But at Scottish Mutual's special general meeting in Glasgow about a dozen policyholders expressed discontent with the deal and criticised the board's handling of it.

In the poll for the takeover and demutualisation of the society 35,470 policyholders voted in favour with 3,199 voting against. Earlier, on a show of hands, the takeover was approved by 183 to 36.

The takeover, involving the largest demutualisation of a UK life assurance company, now has to be approved by the Court of Session in Edinburgh. Abbey National is to create a new life assurance company called Abbey National Life which will offer life insurance to Abbey National's customers. Scottish Mutual will remain in existence as a plc within Abbey National selling its policies through brokers.

Mr Forbes Macpherson, chairman of Scottish Mutual, told the 230 policyholders present that the society had decided to demutualise and await a takeover offer and the effect of the 1986 Financial Services Act on customers selling their products through independent intermediaries.

It had rejected the options of closing the society to new business and seeking new channels of distribution.

Criticism from policyholders concentrated on the fact that Scottish Mutual had not sought competing offers from other institutions, on the valuation of the society and on the terms of the deal.

Mr Forbes Macpherson said that it had received no approaches from other institutions since the deal was announced in late September.

He told Mr Douglas McGhee, who has campaigned against the deal, that Scottish Mutual had not obtained outside advice on the terms of the takeover apart from that of an independent actuary. "Normal commercial advice is not appropriate to the sale of a mutual," he said.

Some 90 per cent of the estimated investment surplus of £132m which Scottish Mutual expects to earn on its existing



Forbes Macpherson: no approaches from other institutions

funds will go to policyholders and 10 per cent to Abbey National shareholders, he said. Mr John Young, former chairman of Stenhouse, a retail insurance brokerage, said he had found Scottish Mutual's offer document "one of the most difficult to understand and read I have seen in 40 years." It was "written by actuaries for actuaries."

He asked: "Why is the board doing this? Because they are considering their staff. The increasing costs Scottish Mutual faces are the costs of redundancy. Yet policyholders are being asked to fund the continuation of a company that has not met its targets." It would have been better to have closed the society to new business, he said.

At the same time, the vendor has agreed to buy and Stanley Leisure has agreed to allot 203,488 new ordinary Stanley shares at 17p per share.

The £24.2m consideration is split as to £26.2m for the freehold premises, £2m for the betting shop licences and £275,000 for the trading assets.

Difficult trading conditions and an "exceptionally high level" of bad debts hit Arthur Shaw in the half-year ended September 29, and its pre-tax profit was more than halved to £12,000, against £28,000.

This USM-quoted group makes safety and security fittings for windows, and supplies engineering products and services. It lifted turnover 23 per cent to £7.7m (£6.3m) but found difficulty in reflecting increased costs in selling prices.

Mr Gordon Pearson, chairman, said the recession affected activity in the house-building, construction and general engineering industries. Market penetration had been increased in certain areas, such as uPVC window replacement, and maintained in more traditional sectors.

Earnings per share fell to 0.9p (9p) so £20,000 has been withdrawn from reserves to help meet the cost of maintaining the 1.3p interim dividend.

Merchant Retail slips to £1.22m

Merchant Retail Group's taxable profits fell from £1.7m to £1.22m in the half-year ended September 29, the result of reduced sales through closures and discontinued business.

Furthermore, Mr David Wallis, chief executive, added that while the effect of Easter being earlier had been anticipated, there was a further reduction because of unseasonable weather at the beginning and end of the period.

The group operates Normans discount supermarkets throughout south-west England and Joplings department stores in the north-east. Normans' sales were up 1 per cent on a like-for-like basis, disguising the fact that the majority of stores were making volume gains and averaged a 6 per cent increase. Higher costs cut net margins to 3.5 (4.1) per cent and its trading profit dropped to £2.0m (£2.7m).

Joplings' sales rose 2 per cent which was a "very good" performance, said Mr Wallis. It was achieved with increases in own-bought fashions, electricals and from Tynesdale Park, the home and garden hyperstore. Its trading profit was £782,000 (£777,000).

The interim dividend is held at 1.1p which means it is short-earned on the capital after the rights issue. Earnings were 0.97p (1.14p).

Net bank borrowings had been reduced from £16.2m at the end of March to £11.8m.

Packaging side helps Sidlaw rise to £8.3m

By Peggy Hollinger

SIDLAW Group, the oil services, packaging and textiles combine, wrapped up the year with a 23 per cent advance in pre-tax profits, from £5.7m to £8.3m.

Mr Digby Morrow, chief executive, said the group had turned in a good performance with sales ahead 19 per cent to £84.6m for the year to September 30.

The packaging division reported the strongest rise, doubling its operating contribution to £3.4m. Venus, which makes packaging products for the food and drug industry, had improved considerably on the £306,000 reported before it was acquired in November last year, Mr Morrow said.

Sidlaw had invested between £23m and £30m in the packaging business since 1985, when it moved into the sector to try to balance the cyclical oil and textile divisions. Packaging now accounted for 35 per cent of operating profits.

Mr Morrow said the group aimed to expand the packaging business through acquisitions, although there were no particular companies targeted.

Oil services, which provided 53 per cent of operating profits, reported a 19 per cent rise to £5.06m on sales 12.5 per cent ahead at £28.3m.

The jute and pile yarn textile division, which had suffered the "most difficult of circumstances", increased profits slightly to £1.15m (£1.03m) and margins by 29 per cent. Almost one-fifth of the division's workforce had been cut or laid off temporarily.

Mr Morrow said he felt encouraged by the opportunities in oil services and packaging. Sidlaw was moving into providing management services for the oil industry, an area which Mr Morrow said provided great potential. The first such contract with BP had been completed during the year.

Interest charges rose from £783,000 to £1.55m and debt increased to £8.6m (£5.3m), following the Venus purchase.

Earnings per share moved up to 18.1p (15.6p). The final dividend is 5.7p for a total of 9p (8p).

Copying the classic marketing headache Richard Gourlay on the MMC's investigation of Rank Xerox

WHEN THE Monopolies and Mergers Commission last month cleared Rank Xerox of abusing a monopoly position in the 11th photocopying market, it came as no surprise to anyone in the industry.

Cut-throat competition, few barriers to entry and a stagnating market have long been characteristics of an industry becoming saturated by suppliers.

Not only was Rank Xerox's position found not to work against the public interest but the MMC also said that neither did other companies' monopolistic practices in the lucrative after-sales market.

The photocopying market has changed beyond recognition since Rank Xerox's 90 per cent market share in 1975 first caught the MMC's eye.

New suppliers, mainly Japanese, have poured into the market. More than 2,000 dealerships have sprung up, a small but visible minority of which have tarnished the industry's reputation with unethical sales techniques.

Undoubtedly the winners have been photocopying users - at least those who avoid unscrupulous dealers. Despite having to endure endless servicing of their notoriously unreliable devices, they have seen the price of photocopying tumble in real terms.

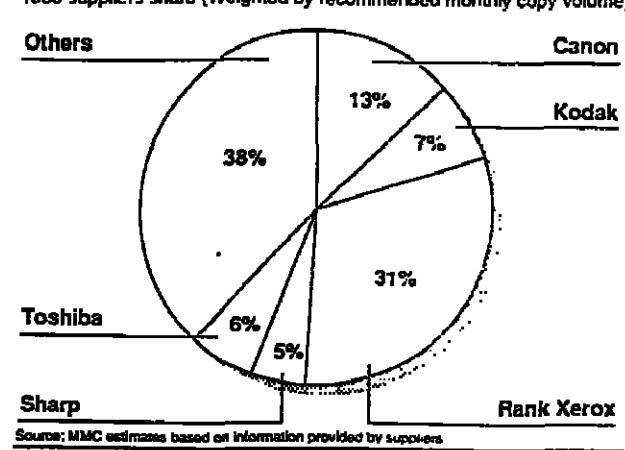
The loser has been Rank Xerox, whose share of a market it largely created has fallen to 31 per cent, according to the MMC, which considers anything above 25 per cent to be a monopoly position.

By 1979, when the MMC looked at the market, Xerox Corporation of the US developed the commercial use of the electrostatic copying process from a 1938 invention of Mr Chester Carlson, an American patent lawyer. In 1956 it bought the Rank Organisation, which was then producing and distributing films and in the same year the joint venture strengthened its position by buying the basic geographic patents.

Xerox Corporation in 1988 took over IBM's service contracts in 1988; Gestetner bought Nashua's UK photocopying business a year later. Alcatel is understood to be pulling out of the market soon and in September Ricoh announced it was injecting capital into Gestetner in the industry's most recent link.

UK copier market

1989 suppliers share (Weighted by recommended monthly copy volume)



Source: MMC estimates based on information provided by suppliers

Today there are more than 717,000 copiers in the UK with all manner of complicated lease, cost-per-copy and outright sale agreements.

In 1989, the last year of the MMC study, 179,000 machines were installed but nearly two thirds of these replaced old models, according to INDAL Business Research.

There has also been a proliferation of suppliers. Twenty-two companies now offer more than 300 models, including a slate of products sold under suppliers' own "badges".

By any of the MMC's measures, industry concentration has fallen dramatically. Rank Xerox's nearest competitor, Canon, which only entered the market in 1976, has only 13 per cent and ten others control between 3 per cent and 8 per cent.

If market share is measured by sales, as opposed to the MMC's preferred measure of placements, weighted by "recommended monthly copy volume", Canon has about 24 per cent of the market, having passed Xerox in 1982.

As a sign of the market's maturity, the big companies are consolidating with smaller competitors or withdrawing altogether. Kodak took over IBM's service contracts in 1988; Gestetner bought Nashua's UK photocopying business a year later. Alcatel is understood to be pulling out of the market soon and in September Ricoh announced it was injecting capital into Gestetner in the industry's most recent link.

What to Buy For Business, the business consumer's guide, believes the Office of Fair Trading missed a crucial point by excluding dealers' practices from the MMC's terms of reference.

Most notorious are the financially ruinous copy plans or cost-per-copy contracts which amalgamate capital costs with the running and maintenance costs. Despite publicity, an alarming number of unsuspecting businesses still get tied into onerous deals, sometimes signing contracts committing them to leases way beyond the useful life of the copier.

One company, Eurocopy, received more than 400 complaints in Scotland about subsidiaries which were misleading customers into signing seven year contracts, among other things. The Office of Fair Trading is currently investigating whether to revoke Eurocopy's licenses.

Mr Brian Haymer of the Electronics, Telecommunications and Business Equipment Industries Association says the few unscrupulous dealers give all manufacturers a bad name. His association recommended to the MMC that all photocopying hire or lease contracts should have a cooling off provision similar to those in consumer credit transactions.

Even without the shoddy practices of some dealers, photocopying manufacturers face a classic marketing headache. Their customers are increasingly demanding and price sensitive and able to shift brand and dealership with relative ease. Rather than harbouring a monopoly, the market is oversupplied and shrinking at the moment because of recession.

According to Mr Julian Baldwin, Canon UK's marketing general manager, the challenge is to turn today's higher value into its long-term fund through selective acquisitions. BFP comprises 11 firms in Cambridgeshire, Lincolnshire and Norfolk, and has good-quality land which is used for high-value products such as potatoes and sugar beet.

With so much of photocopying profits coming from this lucrative after-market, it is unsurprising that some of the most ruthless competition is at the point of contact between dealers and customers.

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Bimec Inds advances 50% to £3m

MORE THAN doubled turnover and a 50 per cent increase in pre-tax profit are reported by Bimec Industries for the half year ended September 30 1991.

Despite the economy the group continued to trade well, had a 645m order book and was poised for another year of substantial growth, said Mr Sam Smith, the chairman.

Against the current economic climate and the severe downturn in the aerospace industry following the Gulf war, the results were most encouraging, he said.

Turnover in the half year rose to £53m (£24m) while the profit reached £3m (£2m). Earnings per share were 3.9p (1.9p) and the interim dividend is 0.67p (0.5p) on the increased capital.

The group operates within three divisions: water and waste treatment, aero and industrial technology, and environmental engineering.

Mr Smith said Dewey Waters and Three Star Engineering, acquired in the period, had been integrated into the water and waste treatment side, which was now a size that its contribution to profits would be approaching 50 per cent at the year-end.

Over the year an overdraft of £1.95m had been turned into net cash of £400,000.

CH Bailey falls to losses of £664,000

CH Bailey, the ship repairing and civil engineering contractor, has tumbled to pre-tax losses of £664,000 in the year to March 29.

The decline - from profits of £105,000 - derived from a fall in turnover to £5m (£7.56m). However the share of profit from associated companies grew to £118,000 (£5,000).

Below the line there was an extraordinary credit of £744,000.

Hogg Robinson seals £6.8m transport buy

Hogg Robinson, the travel, transport and financial services group, has paid £6.8m (£6.54m) cash for Dens, which is engaged in trailer operations across western Europe and a range of port services, mainly based at Ostend.

Hogg said that the acquisition would "contribute significantly" to its existing transport services on the continent, and would complement the activities of Continental Cargo Carriers and Ways Inter Europa. Mr Peter Tween, managing director of Hogg Robinson Transport, said the purchase would be "an important stepping stone for our further developments in Europe".

Stanley Leisure buys 25 betting shops

Stanley Leisure Organisation has, through its wholly-owned subsidiary, Stanley Racing, conditionally agreed to acquire 25 licensed betting shops from T Mawdsley (Bookmakers). The shops operate mainly in

the north-west of England and are being acquired for £24.2m cash.

At the same time, the vendor has agreed to buy and Stanley Leisure has agreed to allot 203,488 new ordinary Stanley shares at 17p per share.

The £24.2m consideration is split as to £26.2m for the freehold premises, £2m for the betting shop licences and £275,000 for the trading assets.

NEWS DIGEST

(nil) relating to the sale of property and other assets. After minorities of £3,000, attributable profits were £26,000 (£14,000).

Losses per share worked through at 1.1p (earnings 0.19p) and again the board has recommended that the dividend be passed.

Drayton Asia assets and profit fall

Net asset value per share at Drayton Asia Trust fell to 86.36p on September 30 1991, from the 90p of six months earlier.

The year before it amounted to 65.5p. In the year 1990-91 gross income showed a reduction from £3.18m to £2.54m, while earnings per share slipped to 0.29p (0.95p) after a substantial cut in administration expenses. The dividend is held at 0.7p.

Caverdale to raise £1.25m for growth

Caverdale Group, the industrial holding company, proposes to raise £1.25m by way of subscriptions for 25m new ordinary shares at 5p per share. The proceeds will fund the growth of existing businesses.

Further, the group is to acquire two income producing properties for a combination of new ordinary shares and cash and also is to acquire 840,000 shares of United Dutch Group from parties connected with Mr Arild Nerdrum and Mr Damian Aspinall, both directors of Caverdale.

Considerations for the properties - a long leasehold in Wandsworth High St, London, and five flats in London's Covent Garden - was £230,000 in new Caverdale shares and £380,000 in cash and shares respectively. The cost of the UDG shares was £750,000 payable in shares and new loan stock.

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ASDA, the grocery chain, yesterday announced there had been a 93.55 per cent take-up of its £37m rights issue.

It disclosed the level of acceptance as "very pleasing". The remaining shares were placed at a net premium of 10.9p per share over the subscription price of 35p.

There had been fears in the City that the issue might flop following the poor level of acceptance for recent rights issues from British Aerospace and Hilldown Holdings.

However, the nine-for-10 issue appears to have

93.55% take-up for Asda rights

By John Thornhill

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The Leeds-based company had been struggling with the high level of short-term debt taken on to finance the acquisition of 60 Gateway supermarkets in 1989.

Its borrowings will now be reduced from £331m to £274m which will cut the gearing ratio from 72.1 per cent to 36.8 per cent.

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GRE sells farming side

By Vanessa Houlder, Property Correspondent

GUARDIAN Royal Exchange, the insurance company, has sold its farming subsidiary to Royal Insurance, one of the UK's largest sales of agricultural land.

British Field Products, which owns 25,500 acres of land, was put on the market in May at an asking price of £28m. GRE Properties said that the price paid was not significantly below that.

Royal said the acquisition was in line with its strategy of building up its property portfolio in its long-term fund through selective acquisitions.

BFP comprises 11 farms in Cambridgeshire, Lincolnshire and Norfolk, and has good-quality land which is used for high-value products such as potatoes and sugar beet.

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With so much of photocopying profits coming from this lucrative after-market, it is unsurprising that some of the most ruthless competition is at the point of contact between dealers and customers.

What to Buy For Business, the business consumer's guide, believes the Office of Fair Trading missed a crucial point by excluding dealers' practices from the MMC's terms of reference.

Most notorious are the financially ruinous copy plans or cost-per-copy contracts which amalgamate capital costs with the running and maintenance costs. Despite publicity, an alarming number of unsuspecting businesses still get tied into onerous deals, sometimes signing contracts committing them to leases way beyond the useful life of the copier.

One company, Eurocopy, received more than 400 complaints in Scotland about subsidiaries which were misleading customers into signing seven year contracts, among other things. The Office of Fair Trading is currently investigating whether to revoke Eurocopy's licenses.

Mr Brian Haymer of the Electronics, Telecommunications and Business Equipment Industries Association says the few unscrup

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AMERICANS									
1991	Low	High	Stock	Price	1991	Low	High	Stock	Price
100	100	100	Alcoa	100	100	100	100	100	100
101	101	101	Alcoa	101	101	101	101	101	101
102	102	102	Alcoa	102	102	102	102	102	102
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104	104	104	Alcoa	104	104	104	104	104	104
105	105	105	Alcoa	105	105	105	105	105	105
106	106	106	Alcoa	106	106	106	106	106	106
107	107	107	Alcoa	107	107	107	107	107	107
108	108	108	Alcoa	108	108	108	108	108	108
109	109	109	Alcoa	109	109	109	109	109	109
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198	198	198	Alcoa	198	198	198	198	198	198
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MINES -- Contd

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

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● Current Unit Trust prices are available on FT Cyteline. Calls charged at 42p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (077) 335-2122

N & P Life Assurance Ltd			Provident Life Assurance Co Ltd			Royal Heritage Life Assurance Co Ltd			Shamela Life Assurance Co Ltd			Target Life Assurance Co Ltd			Equitable Life (International)			Independent Financial Group PLC			Lazard Freres (Channel Islands) Ltd		
Share Price	Dividend	Yield	Share Price	Dividend	Yield	Share Price	Dividend	Yield	Share Price	Dividend	Yield	Share Price	Dividend	Yield	Share Price	Dividend	Yield	Share Price	Dividend	Yield	Share Price	Dividend	Yield
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00
10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.00	10.10	0.10	1.									

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

German rate worries hit dollar

THE DOLLAR closed little changed in quiet trading but well below its highs of the day as worries about a possible increase in German interest rates continued to grow.

The dollar has risen gently to just below DM1.85 in early European trading, with confidence slowly beginning to return after the declines of the last fortnight.

However, the dollar fell by over 1/2 pence after Mr Helmut Hesse, a Bundesbank council member, said German interest rates may have to rise to keep inflationary pressures under control.

Mr Hesse's comments appeared to contradict a report at the end of last week that Mr Helmut Schlesinger, president of the Bundesbank, was broadly satisfied with the level of German interest rates.

In spite of the confusion over German monetary policy, the dominant view by the close of trading was that, with inflation likely to rise towards the year-end, an increase in interest rates is likely.

After its initial decline, the dollar continued to weaken gently against the D-Mark and by the close was trading just above support at DM1.84.

With holidays in the US, France and Belgium, dealers said some of the currency market's movements may have been exaggerated. Nevertheless, Mr Hesse's comments have left operators more cautious about the US currency and have reinforced the widespread belief that the next major move will be down.

The US statistics to be released this week are likely to confirm recent worries about weak economic growth. The October producer prices figures and retail sales data on Thursday will show that at best a feeble recovery is under way.

The dollar closed lower at DM1.8415 from DM1.8420; at SF1.4490 from SF1.4500; and at ¥130.00 from ¥130.30.

The D-Mark remained firm on the speculation about tighter German monetary policy, and yesterday it became the second strongest currency inside the ERM grid. But German markets were also quiet, waiting for proposals on a withholding tax. The D-Mark

closed little changed at ¥130.30 and at 88.30 Swiss centimes.

The Spanish peseta remained the strongest currency within the ERM, although there was some talk that with good inflation figures due out this week, interest rates could fall.

Spanish consumer prices are expected to moderate to around a 5.2 per cent rise in October from September's 5.7 per cent. The peseta's position against the weakest ERM currency fell slightly to 5.13 per cent from 5.16 per cent, while the D-Mark continued to hover just below the Ptas6 level.

Sterling was steady awaiting the release later in the week of labour market and inflation figures, although the recent talk of an interest rate cut kept the pound on the defensive. It closed at DM2.9050 from DM2.9025 and at ¥176.55 from ¥176.75. Sterling's index was unchanged at 91.2.

For central rates see the European Commission. Committee are in discussion relative stability. Percentage changes are for a positive change shows a weak currency. Discrepancy shows the ratio between two currencies. Percentage difference between the actual market rate and the official rate for a currency, and the maximum percentage difference between the actual market rate and the official rate.

EMS EUROPEAN CURRENCY UNIT RATES				
Currency	Unit	Change	% Change	Discrepancy
Spanish Peseta	133.631	128.683	-3.70	5.20
D-Mark	2.25000	2.24999	-0.001	0.001
Dutch Guilder	1.73633	1.73633	0.000	0.000
Italian Lira	1,376.037	1,376.037	0.000	0.000
French Franc	6.55957	6.55957	0.000	0.000

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POUND SPOT - FORWARD AGAINST THE POUND				
Month	Rate	Change	% Change	Discrepancy
1 month	1.7625	1.7700	0.0075	0.0075
3 months	1.7625	1.7700	0.0075	0.0075
6 months	1.7625	1.7700	0.0075	0.0075
12 months	1.7625	1.7700	0.0075	0.0075

STERLING INDEX				
Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

CURRENCY MOVEMENTS

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
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3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

FINANCIAL FUTURES AND OPTIONS

LIFE LONG CREDIT FUTURES

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
1 month	91.2	91.2	0.0	0.0
3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

Month	Rate	Change	% Change	Discrepancy
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3 months	91.2	91.2	0.0	0.0
6 months	91.2	91.2	0.0	0.0
12 months	91.2	91.2	0.0	0.0

	Close	High	Low
Dec	99.78	99.78	99.77
Mar	99.97	99.99	99.96
Estimated volume 236 (b)(3)			
Traded exclusively on APT			

Φ Φ 43

CANADA											
Index	Stock	High	Low	Close	Chng	Index	Stock	High	Low	Close	Chng
TORONTO											
4:00 pm prices November 11											
Dow Jones in cents unless marked S											
22900	Albairi Pt	516 1/2	515 1/2	515 1/2	+	14200	Can West	518 1/2	517 1/2	517 1/2	+
3400	Agriacore	485	480	485	+25	14300	Can West	518 1/2	517 1/2	517 1/2	+
3500	Alco	81 1/2	81 1/2	81 1/2	+	14400	Can West	518 1/2	517 1/2	517 1/2	+
800	Alcoa	51 1/2	51 1/2	51 1/2	+	14500	Can West	518 1/2	517 1/2	517 1/2	+
1000	Alumina	514 1/2	514 1/2	514 1/2	+	14600	Can West	518 1/2	517 1/2	517 1/2	+
10000	Alcan	304 1/2	304 1/2	304 1/2	+	14700	Can West	518 1/2	517 1/2	517 1/2	+
11000	Alor	327 1/2	327 1/2	327 1/2	+	14800	Can West	518 1/2	517 1/2	517 1/2	+
8000	Alor G	115 1/2	115 1/2	115 1/2	+	14900	Can West	518 1/2	517 1/2	517 1/2	+
40100	Alor G	230 1/2	230 1/2	230 1/2	+	15000	Can West	518 1/2	517 1/2	517 1/2	+
20000	Alor G	230 1/2	230 1/2	230 1/2	+	15100	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15200	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15300	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15400	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15500	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15600	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15700	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15800	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	15900	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16000	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16100	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16200	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16300	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16400	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16500	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16600	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16700	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16800	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	16900	Can West	518 1/2	517 1/2	517 1/2	+
4000	Alor G	230 1/2	230 1/2	230 1/2	+	17000	Can West	518 1/2	517 1/2	517 1/2	+

NASDAQ NATIONAL MARKET

State	Div. E	1986	High	Low	Last	Chng	Stock	Div. E	1986	High	Low	Last	Chng	State	Div. E	1986	High	Low	Last	Chng	State	Div. E	1986	High	Low	Last	Chng	
Alabama	0.50	21	39	18	21	31	14	Ala. Steel	0.20	12	11	9	8	1	Ala. Steel	0.20	12	11	9	8	1	Ala. Steel	0.20	12	11	9	8	1
Alaska	0.50	21	39	18	21	31	14	Alaska Steel	0.20	12	11	9	8	1	Alaska Steel	0.20	12	11	9	8	1	Alaska Steel	0.20	12	11	9	8	1
Arizona	0.50	21	39	18	21	31	14	Arizona Steel	0.20	12	11	9	8	1	Arizona Steel	0.20	12	11	9	8	1	Arizona Steel	0.20	12	11	9	8	1
Arkansas	0.50	21	39	18	21	31	14	Arkansas Steel	0.20	12	11	9	8	1	Arkansas Steel	0.20	12	11	9	8	1	Arkansas Steel	0.20	12	11	9	8	1
California	0.50	21	39	18	21	31	14	California Steel	0.20	12	11	9	8	1	California Steel	0.20	12	11	9	8	1	California Steel	0.20	12	11	9	8	1
Colorado	0.50	21	39	18	21	31	14	Colorado Steel	0.20	12	11	9	8	1	Colorado Steel	0.20	12	11	9	8	1	Colorado Steel	0.20	12	11	9	8	1
Connecticut	0.50	21	39	18	21	31	14	Connecticut Steel	0.20	12	11	9	8	1	Connecticut Steel	0.20	12	11	9	8	1	Connecticut Steel	0.20	12	11	9	8	1
Delaware	0.50	21	39	18	21	31	14	Delaware Steel	0.20	12	11	9	8	1	Delaware Steel	0.20	12	11	9	8	1	Delaware Steel	0.20	12	11	9	8	1
Florida	0.50	21	39	18	21	31	14	Florida Steel	0.20	12	11	9	8	1	Florida Steel	0.20	12	11	9	8	1	Florida Steel	0.20	12	11	9	8	1
Georgia	0.50	21	39	18	21	31	14	Georgia Steel	0.20	12	11	9	8	1	Georgia Steel	0.20	12	11	9	8	1	Georgia Steel	0.20	12	11	9	8	1
Hawaii	0.50	21	39	18	21	31	14	Hawaii Steel	0.20	12	11	9	8	1	Hawaii Steel	0.20	12	11	9	8	1	Hawaii Steel	0.20	12	11	9	8	1
Idaho	0.50	21	39	18	21	31	14	Idaho Steel	0.20	12	11	9	8	1	Idaho Steel	0.20	12	11	9	8	1	Idaho Steel	0.20	12	11	9	8	1
Illinois	0.50	21	39	18	21	31	14	Illinois Steel	0.20	12	11	9	8	1	Illinois Steel	0.20	12	11	9	8	1	Illinois Steel	0.20	12	11	9	8	1
Indiana	0.50	21	39	18	21	31	14	Indiana Steel	0.20	12	11	9	8	1	Indiana Steel	0.20	12	11	9	8	1	Indiana Steel	0.20	12	11	9	8	1
Iowa	0.50	21	39	18	21	31	14	Iowa Steel	0.20	12	11	9	8	1	Iowa Steel	0.20	12	11	9	8	1	Iowa Steel	0.20	12	11	9	8	1
Kansas	0.50	21	39	18	21	31	14	Kansas Steel	0.20	12	11	9	8	1	Kansas Steel	0.20	12	11	9	8	1	Kansas Steel	0.20	12	11	9	8	1
Kentucky	0.50	21	39	18	21	31	14	Kentucky Steel	0.20	12	11	9	8	1	Kentucky Steel	0.20	12	11	9	8	1	Kentucky Steel	0.20	12	11	9	8	1
Louisiana	0.50	21	39	18	21	31	14	Louisiana Steel	0.20	12	11	9	8	1	Louisiana Steel	0.20	12	11	9	8	1	Louisiana Steel	0.20	12	11	9	8	1
Maine	0.50	21	39	18	21	31	14	Maine Steel	0.20	12	11	9	8	1														

4:00 pm prices November 11

[illegible]

*Source: Chief Executives in Europe 1990

The FT proposes to publish this survey on **NOVEMBER 28 1991**. The survey will be circulated in 160 countries, worldwide providing an independent view of the islands. It will be of particular interest to the FT's senior businessmen readers as well as institutional and private investors. To reach this audience through your advertisement, contact **Chris Schaanning**, Financial Times (Birmingham) George House, George Road, Edgbaston, Birmingham, B15 1PG. Tel: 021 454 0922 Fax: 021 455 0869

FT SURVEYS

AMERICA

Reluctance to pre-empt news on Veterans Day

Wall Street

THE STOCK market was unusually quiet yesterday because of the Veterans Day holiday. Volume was well below normal levels and share prices showed no decisive trend, although the auto sector performed weakly, writes Patrick Harpison in New York.

At the close the Dow Jones Industrial Average was down just 3.36 at 3,042.26 after having barely moved all day, while the more broadly based Standard & Poor's 500 ended a slight 0.23 firmer at 393.12. The Nasdaq composite of over-the-counter stocks, however, climbed 2.66 to 550.74, finishing at a record high for the third consecutive trading day. Turnover on the New York SE totalled a meagre 129m shares.

Those market participants who chose not to take the day off had little to focus on. The general reluctance to trade was exacerbated by a fear of misjudging the market's reaction later to the string of important economic statistics due to be released this week. October's inflation (both consumer and producer) data will be published, as will the month's retail sales and industrial production figures. The statistics are expected to paint a picture of a weak-growth, low-inflation economy still struggling to pull out of the recession.

Among individual stocks, auto shares were troubled by general concern about the outlook for the car industry. General Motors, which late last week predicted that it would have to take a non-cash charge of between \$16bn and \$24bn because of new accounting rules covering retirement benefits, fell 1.1% to \$32.50. Ford retreated 1% to \$25.50 while Chrysler slipped 1% to \$21.20.

Auto accessory stocks were also weak, with Cooper Tire & Rubber off 1% at \$39.94 and Goodyear 1% at \$51.40.

The ADRs of British Steel, the UK steel group, plunged 4% to \$16.75 in active trading on news of the big decline in first-half profits. Environmental Systems climbed 3% to \$18 after

Brambles USA offered \$16 a share for the outstanding Environmental shares.

On the over-the-counter market, Centocor jumped 4% to \$49.94 in very active trading on reports that medical researchers had been encouraged by results from testing a drug produced by the company for preventing blood clots reforming after heart attacks.

Adolph Coors, the brewing group, advanced 1% to \$20 on heavy buying by investors in the wake of an upgraded rating by PaineWebber, the Wall Street brokerage house. Another stock to benefit from a broker's recommendation was Cygnus Therapeutic, which rose 1% to \$21.40 after Ham-brook & Co. raised its buy rating on the shares.

Canada

THE Remembrance Day holiday, which closed the banks, kept trading in Toronto listless yesterday. The composite index, however, put on 17.7 to 3,579.3 as advances outscored declines by 326 to 202. Volume dropped to 19.7m shares from Friday's 35.4m. All 14 sub-groups ended higher, although the lack of fresh incentives and decline in futures prices. Volume fell below 200m shares for the first time since October 14, as share prices lost ground, writes Erika Terazono in Tokyo.

The Nikkei average closed 253.50 down at the day's low of 24,322.99, after opening at the high for the session of 24,437.85. Volume shrank to 150m shares from 250m. The lack of turnover exacerbated the decline in the index of small-cap selling by individual investors.

Traders expected investors to remain inactive until Mr Yasushi Mieno, governor of the Bank of Japan, returns tomorrow from the meeting at the Bank of International Settlements in Switzerland. Expectations of a discount rate reduction remained high. "Nobody will do anything before the rate cut," said Mr Dan Kerrigan at County NatWest.

Losses overwhelmed gains

by 714 to 231, with 168 issues unchanged. The Topix index of all first section stocks slipped 12.86 to 1,633.95, but in London the ISE/Nikkei 50 index ended 1.48 firmer at 1,384.55.

Sentiment faltered as poor profits announcements filtered into the market. However, some analysts believed that lower interest rates in the near future would trigger a rally.

The market will digest the bad news," said Mr Robert Feldman at Salomon Brothers. He added that the rally expected in the bond market would prompt investors to move into equities, pushing the Nikkei index up to 27,000 level.

Speculative stocks lost ground on margin selling by individual investors. Howa Machinery, the day's most active issue, fell 9% to ¥1,010 and Honshu Paper ¥23 to ¥908.

High-technology shares were depressed by concern over the sluggish business outlook. Sony fell ¥40 to another low for the year of ¥4,960, as did Hitachi, ¥12 down at ¥970.

Traders said investors were nervous about Sony moving below its ¥5,000 support level.

Nippon Telegraph and Telephone continued to rise, helped by hopes that the government would support the issue before NTT's second tranche sell-off, expected next year. The stock gained ¥10,000 to ¥841,000.

In Osaka, the OSE average receded 198.93 to 26,349.95 in volume of 20.4m shares. The index was down for the seventh consecutive day, with machinery, electricals and chemicals weaker.

Nintendo, the video game maker, relinquished ¥200 to ¥13,400 on small-lot selling. Ono Pharmaceutical declined ¥250 to ¥5,700 as investors grew cautious of the large margin position of 15.7m shares.

Roundup

PROFIT-TAKING was evident in many markets in the Pacific Rim yesterday.

KUALA LUMPUR jumped 3.4% to 1,450.00, as institutional investors returned to the market. The composite index rose 18.38 to 554.57 in heavy turnover of M\$178m, up from M\$78m.

SINGAPORE featured a Smith New Court/Credit Suisse

indices rebased (in local terms)

First Boston placing of 20m shares of Jurong Shipyard, 20 per cent of the company's equity, at S\$8.438 a share for IHL, the big Japanese ship-builder. The closing price in the market was S\$10.40.

In spite of profit-taking, the Straits Times Industrial Index ended a further 1.2 per cent or 16.90 higher at 1,491.42, after jumping 1.8 per cent on Friday. Volume expanded to S\$297m from S\$235m.

HONG KONG eased in active

trading as sharp early gains were eroded by profit-takers. The Hang Seng index lost 5.73 to 4,230.91, following last week's gain of nearly 300 points to record highs. Turnover slipped to HK\$1.9bn from HK\$2.6bn.

Dealers said news that Hong-kong & Shanghai Banking and its Hang Seng Bank subsidiary are reducing the size of mortgages they will grant for new flats could weigh on the market today.

NEW ZEALAND was dragged down by an 8-cent fall in Fletcher Challenge to NZ\$3.48, on uncertainty over the parcel of 104.6m new shares that the company plans to issue to the government in March. The NZSE-40 index shed 5.81 to 1,546.64. Turnover fell to NZ\$13.5m (NZ\$21.4m).

Robt Jones Investments fell 2 cents or 5 per cent to 38 cents after reporting after the close of trading on Friday that its operating profits after taxes had plunged 65 per cent to NZ\$8.2m in its fiscal first half.

TAIWAN surrendered its early gains. The weighted index hit an intraday high of

4,553.08 before closing a net 3.45 off at 4,491.58, after an advance of 55.64 on Saturday. Turnover came to T\$21.6bn, against Saturday's 2.5 down at T\$18.8bn. The market is closed today for a national holiday.

AUSTRALIA slipped in quiet trading. The All Ordinaries index lost 3.2 to 1,631.1 in turnover of A\$229m, after A\$344m.

News Corp shed 32 cents to A\$15.58, after a fall in the share price in the US on Friday. In the banking sector, ANZ closed 13 cents higher at A\$4.42 on merger speculation.

MANILA finished below the day's best due to profit-taking. Oil and mining were the weakest sectors, while industrials posted further gains. The composite index closed 28.78 up at 1,119.64 in turnover of 260m pesos, against 236m.

SEOUL retreated in spite of gains by small manufacturing shares. The composite index ended at 679.55, down 5.08, in turnover of Won222bn, after Won157bn.

Steel shares posted healthy rises on the strong outlook for the shares in the second half of this year.

EUROPE

Oslo falls 2.6 per cent in steady continental trading

BOURSES WERE little changed yesterday, with the exception of Oslo, which continued to be plagued by bad news, writes Our Markets Staff. Paris and Brussels were closed for a holiday.

FRANKFURT tried to build on Friday's strength but equities developed a serious wobble, partly in consideration of a weekend statement from Mr Hilmar Kopper, the chairman of Deutsche Bank, that the Soviet Union could default on loans in the near future.

After a 3.03 rise to 663.40 in the FAZ index at mid-session, the DAX index closed 2.80 higher at 1,609.02, down from an intraday high of 1,614.92. Volume eased only slightly, from DM6.6bn to DM6.1bn. Commerzbank fell DM5.50 to DM249.50. It last suffered jitters in September on talk that it was the biggest German unsecured lender to the Soviets, and had not made provisions against this debt. However, analysts observed that its one major debt outstanding

ASIA PACIFIC

Volume falls to 150m shares as investors stay away

Tokyo

INVESTORS stayed on the sidelines yesterday, owing to the lack of fresh incentives and decline in futures prices. Volume fell below 200m shares for the first time since October 14, as share prices lost ground, writes Erika Terazono in Tokyo.

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Japan saps strength from world index

MARKETS IN PERSPECTIVE

	% change in local currency			% change in	% change in
	1 Week	4 Weeks	1 Year	Start of 1991	Start of 1991
Austria	+7.38	-3.00	-6.15	-5.56	-6.41
Belgium	+0.26	+0.38	+6.40	+10.27	+9.77
Denmark	+0.09	+2.44	+14.73	+23.87	+22.72
Finland	+1.53	+1.39	-1.12	-5.20	-6.51
France	+0.16	+1.53	+19.24	+21.90	+20.21
Germany	+1.89	+2.14	+10.72	+9.22	+6.80
Ireland	-1.84	+0.50	+15.85	+17.57	+17.20
Italy	-1.11	-2.40	-8.58	-3.11	-3.37
Netherlands	+1.89	+3.15	+22.40	+16.93	+18.21
Norway	-0.47	-3.51	-8.65	-10.20	-9.18
Spain	-2.66	-2.15	+16.22	+17.53	+18.77
Sweden	-3.58	-2.12	+19.78	+22.28	+25.22
Switzerland	+2.76	+3.50	+25.06	+25.22	+20.18
UK	+0.31	+0.24	+26.00	+19.64	+19.57
EUROPE	+0.50	+0.72	+18.57	+16.53	+15.96
Australia	+0.47	+8.43	+27.82	+33.49	+48.27
Hong Kong	+5.05	+5.48	+48.29	+42.81	+56.67
Japan	-2.03	-0.67	+11.42	+7.66	+22.28
Malaysia	-0.15	+5.78	+6.48	+2.02	-3.54
New Zealand	+1.07	+8.89	+11.46	+20.38	+24.72
Singapore	+5.52	+11.64	+36.09	+28.07	+44.63
Canada	+1.16	+5.11	+12.48	+6.89	+20.10
USA	+0.32	+3.06	+28.76	+19.80	+30.81
Mexico	+1.00	+5.12	+152.20	+133.99	+145.68
South Africa	+0.24	+5.16	+34.33	+30.08	+57.05
WORLD INDEX	-0.32	+1.50	+20.40	+15.38	+24.72

1 Based on November 9th 1991. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities

By Jacqueline Moore

THE STRENGTH of most world stock markets

last week was sapped by a poor performance in Japan. In spite of healthy rises within Europe and a small advance in the US, the FT-Actuaries World Index lost 0.3 per cent in local currency terms. Excluding Japan, the index rose 0.5 per cent.

Fading hopes of a discount rate cut, combined with futures-related selling, depressed Japan in a four-day trading week. Nomura, the securities house, says the market's direction this week will depend on whether there is a rate reduction.

The broker says in its weekly review: "If the Bank of Japan decides not to reduce rates, the market is expected to drift lower. On the other hand, a discount rate cut of 50 basis points has been discounted and, unless there is a reduction of at least 75 basis points, the effect will be negligible on stock prices."

The fall in Tokyo did not hold back other markets in the

Pacific Basin. Hong Kong and Singapore both advanced more than 5 per cent in local currency terms.

Newspapers of the forthcoming visit to Beijing of Mr James Baker, the US secretary of state, encouraged Hong Kong. "It should head off a trade war between the US and China," says one analyst.

A successful property sale and the previous week's cut in interest rates also boosted the market, while the government's anti-inflation package was mild enough not to upset investors.

Singapore was lifted by buying of the Chinese by overseas institutions, as hopes of a rate cut kept the mood optimistic.

In Europe, Switzerland and Germany rose 2.8 and 1.9 per cent respectively. The Bundesbank's decision not to raise interest rates in the week helped. On the other hand, a discount rate cut of 50 basis points has been discounted and, unless there is a reduction of at least 75 basis points, the effect will be negligible on stock prices."

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